

Fife Council Pension Fund Annual Report 2015-16

SCHEME OF PENSIONS REGULATOR REGISTRATION NUMBER:10038483



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MANAGEMENT COMMENTARY

Introduction

Welcome to the Annual Report and Accounts for the 2015-16 Local Government Pension Scheme (LGPS) administered by Fife Council. The report is intended to keep members, employers, pensioners and other interested stakeholders informed about the management and performance of the Pension Fund.

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

Governance Arrangements

The Superannuation Fund and Pensions Sub-Committee oversees the running of the pension fund. The sub-committee oversees the supervision and administration of fund's investments, sets the investment strategy and also oversees pension administration. The sub-committee plays a key role in managing the risk that the fund is exposed to. There is a need to balance securing the solvency of the fund and at the same time keeping employers' contributions stable.

Training has continued to be provided during the year on fund investment and a training session on the new Local Government Pension Scheme 2015 was delivered to the sub-committee.

The Pension Board was established from the 1 April 2015 as a requirement of the new regulations and is intended to give greater oversight of the LGPS. Meetings of the sub-committee are held with the Pension Board in attendance.

Activity in 2015-16

On 1 April 2015, the LGPS switched from a final salary scheme to a career average scheme. The Pensions Team had worked hard in 2014-15 to prepare for this change. However, implementation of the new scheme continues to be a significant project.

A Training Plan is in place to ensure that team members are kept up to date with scheme changes and other regulatory issues. Communicating with members and employers on the benefits of the scheme and scheme changes has continued to be a priority.

Wider legislative changes have also continued to impact on the team. 'Freedom and Choice' legislation introduced in April 2015 required staff training and communications with members and employers on the impact on LGPS benefits. The implications of the ending of contracting out of the additional state pension was highlighted to members and employers and a project was initiated to ensure we hold accurate contracted out information for our members.

Another area of legislative change has been the introduction of new governance arrangements for all public sector pension schemes. Accordingly, the Fife Pension Board was established on 1 April 2015 to deliver effective governance of the Scheme, as administered by Fife Council. The team is also carrying out a review of its policies and procedures to ensure compliance with the Pensions Regulator's Code of Practice No.14.

A major activity in 2015-16 has been the testing and development of Member Self Service (MSS). This application from our pension software supplier, Aquila Heywood, allows members to view and edit the information held on their pension record and perform benefit projections through a secure web site. Additional functionality will allow pensioner members to view their pay slips and amend bank details, which will improve the service we provide to members. Both Member Self Service and iConnect which integrates the Council's payroll to the pension administration system, will result in efficiencies.

There does not appear to be any let up in the regulatory change agenda affecting pensions as highlighted in the recent UK Government consultations on pension taxation relief and public sector exit payments. The team will continue to participate in consultation exercises.

The challenges of the introduction of the new scheme and the additional work required has had an adverse effect on the performance standards. However, this continues to be monitored and improvements are being made in certain areas. Benchmarking on administration unit costs was comparable to other authorities based on direct costs. A breakdown of administration performance in the year is detailed in the Scheme Administration Report.

Triennial Valuation and Funding Strategy

An actuarial valuation was undertaken as at 31 March 2014 placing a value on the fund's assets and liabilities at that time. It showed there was a pension deficit. The fund's assets were valued at £1.589bn and the fund's liabilities were valued at £1.811bn, resulting in a funding level of 87.8%. This meant there was a shortfall of assets to the assessed cost of members' benefits of £222m. However, the funding level was slightly higher than the 87% funding level as at 31 March 2011. Although the deficit had increased by £39m since 2011, the market value of assets had increased from £1.283bn as at 2011 largely due to investment returns.

The 2014 valuation results can be viewed at www.fifedirect.org.uk/lgps.

Investment Performance

The current investment strategy ensures investment performance is managed effectively and monitored closely under the governance arrangements in place.

There is currently a strategic allocation of 80% in growth assets (equities, property, etc.) and 20% in non-growth assets (bonds). This is a consequence of the formal strategic review of the investment strategy that was undertaken in March 2014.

The Pension Fund underperformed against its benchmark in the financial year to 31 March 2016. The combined asset value of the funds invested at the end of March 2016 increased by £23m from the previous financial year end to £1.854bn, an increase of 1.2%.

2015-16 Accounts

A summary of the main statements is provided below:-

Statement of Responsibilities – outlines the administering authority's responsibilities, as well as those of Executive Director Finance & Corporate Services.

Fund Account – shows income and expenditure from the fund in relation to scheme members and the investment and administration of the fund. The account also compares the fund's net assets at the start of the year to the net assets at the year end.

The fund account shows that contributions remained the same during the year to 31 March 2016 at £87m and the benefits payable increased from £64.2m to £69.5m due to higher pensions payable and an increase in Lump Sum Death Benefits.

Net Assets Statement – shows the type and value of all net assets at the year end.

The Fund's net assets increased by £22.7m from £1.830bn to £1.853bn as at 31 March 2016.

Notes to the Fund Accounts – provides supporting details and analysis of the figures in the Fund Account and Net Assets Statement.

Future Years

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

Acknowledgements

We would like to thank elected members and officers of the Council for all of their work during 2015-16. The production of the accounts is very much a team effort and again the accounts were completed by the 30 June deadline.

Eileen Rowand
Executive Director Finance and Corporate Services
30 September 2016

Steven Grimmond
Chief Executive
30 September 2016

Councillor William Campbell
Chair of the Superannuation and Pension Fund Sub-committee
30 September 2016

MEMBERSHIP OF THE FUND

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

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

The list of participating employers during 2015-16 is as follows:-

Scheduled Bodies

Fife Council

Fife College (formerly Adam Smith and Carnegie Colleges)

Visit Scotland

Police College

Scottish Police Authority (for former support staff of Fife Constabulary and new support staff based in the Fife area)

Scottish Fire & Rescue Service (for former support staff of Fife Fire & Rescue Service and new support staff based in the Fife area)

Admitted Bodies

St Andrews Links Trust

Fife Alcohol Support Service

East of Scotland European Partnership

Fife Housing Association Ltd

Fife Gingerbread

Citizens Advice & Rights Fife

Home-Start Levenmouth

Business Gateway Fife

Drug & Alcohol Project

Fife Intensive Rehabilitation & Substance Misuse Team (FIRST)

Fife Historic Buildings Trust

Fife Forth Valley Community Justice Authority

Forth & Oban

Fife Sport & Leisure Trust

Fife Coast & Countryside Trust

Fife Women's Aid

Fife Golf Trust

Fife Cultural Trust

Scotland's Rural College (SRUC)

Fife Resource Solutions

Poppyview Family Centre

St Andrews Botanic Garden

MITIE

Changes in Membership

St Andrews Botanic Garden joined the Fund as an admitted body on 1 April 2015.

MITIE joined the Fund as an admitted body on 3 December 2012. The admission agreement covered Adam Smith College employees who had been TUPE transferred from Fife Council to MITIE when MITIE was awarded the cleaning contract at the College. However, due to on-going discussions about pension liabilities and funding, the decision to provide LGPS membership for TUPE staff was only confirmed by MITIE in June 2015.

Fund Membership as at 31 March

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

	2016	2015
Active Members	16,123	16,130
Deferred Members*	5,639	5,571
Pensioners/Dependants	11,488	11,014
Total	33,250	32,715

* 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 but may be subject to actuarial reductions if payment is made before age 65.

SCHEME ADMINISTRATION REPORT

The Team

Fife Council's HR/Payroll and Pension Transaction Team provides a pension service to the members and employers of the Fund. The team continues to provide a pension service to former support staff of Fife Constabulary and Fife Fire & Rescue Service and to new police and fire support staff located in the Fife area.

Changes to Scheme Rules

On 1 April 2015, the new LGPS came into effect, replacing the final salary scheme with a career average revalued earnings (CARE) scheme for future benefits.

The main features of the new scheme are:-

- normal pension age linked to state pension age (minimum age 65);
- pension of 1/49th of pensionable pay; and
- introduction of the 50:50 option which allows members to pay half their contribution rate whilst building up 50% of their pension benefits. Death in service cover is unaffected. This flexibility is not designed to replace long term membership of the scheme.

Protection is given to members who were contributing prior to 1 April 2015. Key provisions are:-

- benefits built up under former LGPS regulations are preserved;
- the final salary link and normal pension age at 65 for benefits built up to 31 March 2015 are retained; and
- an underpin in place for members born before 1 April 1957 to ensure they do not suffer any detrimental loss following the introduction of the new scheme from 1 April 2015;

Implementation of the new scheme involved a great deal of planning and commitment by the team in 2014-15 to ensure as smooth a transition as possible. Throughout 2015-16 the team has continued to work closely with our software supplier to ensure the pension administration system is in accordance with the regulatory changes. A training plan is in place to ensure team members have the necessary knowledge and skills covering LGPS regulations and legislation. The team has communicated regularly with members and employers about scheme changes.

The Pensions Regulator

In April 2015, the Pensions Regulator (TPR) published its Code of Practice No: 14 Governance and Administration which covers the following areas:-

- Scheme Governance;
- Managing risks;
- Scheme administration; and
- Resolving issues.

With regards to scheme administration, the team is conscious of the need to demonstrate greater transparency and accurate record keeping. The team is therefore currently carrying out a review of processes and strategies and continues to work closely with employers about the quality and accuracy of data provided.

Administration Performance

Pension Administration Strategy

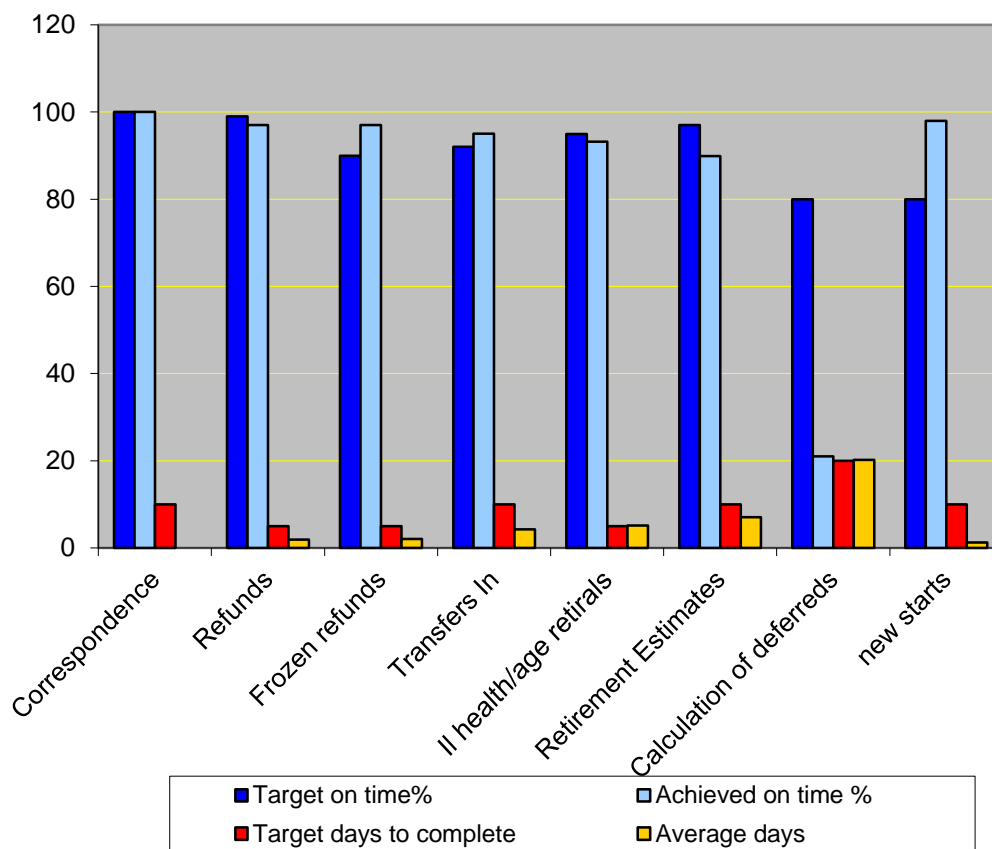
The Fund's Pension Administration Strategy Statement effectively combines all roles, responsibilities, and expected performance targets for the team and scheme employers in one document. The statement can be accessed at: www.fifedirect.org.uk/lgps

Performance Standards

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

The chart below provides performance data on the team's key targets for 2015-16.

Performance Chart 2015-16



The challenges of the introduction of the new scheme, and the resulting need to provide additional help and support to employers, have impacted on performance against some standards. However, on a positive note, there has been an improvement in dealing with frozen refunds and we met our target in dealing with correspondence. Due to a delay in our software supplier implementing revised transfer factors, we were not able to process transfers in bulk during the first half of 2015-16. Once the factors were uploaded, we exceeded our target for processing transfer in requests.

The team's performance is continually monitored to ensure improvements are made in all areas. Consequently, the team has extended the range of tasks that we report on to include processing new entrants to the scheme and calculation of deferred benefits for early leavers, to provide a more comprehensive indication of how the team is performing. We are pleased to report that we have exceeded the new entrants target. The performance with regards to the calculation and notification of deferred benefits was very disappointing. Clearly this is an area that needs

significant improvement and therefore we are examining our processes and have planned for more team members to undergo training on deferred benefit calculations.

The team has continued to develop workflow processes covering notifications of deaths.

CIPFA Benchmarking Club

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

Our unit cost per member for the most recent year (2014-2015) was £24.33 compared to the club average of £19.17 and an outsourced average of £21.06. A breakdown shows that the difference is due, in part, to significantly higher indirect costs. Funds use different methods when calculating their indirect costs to apportion overheads.

National Fraud Initiative

The fund participates in the National Fraud Initiative. This is a counter-fraud initiative led by Audit Scotland. In its 2014-15 Fife Council Pension Fund Audit report, the Council's external auditors concluded that the Council is proactive in reviewing and investigating cases.

Knowledge and Skills

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

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

Communications

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

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

During the year, members received a newsletter giving updates on the new scheme. The mini site's content has been extended to include information on tax controls and there is a more comprehensive range of forms and policy documents. Scheme guides are kept up to date reflecting regulation amendments.

Specific communication exercises throughout the year covered pension taxation reform, Pensions 'Freedom & Choice' and the implications of the new state pension scheme.

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

Working with Scheme Employers

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

The Annual Employers' Forum was held on 2 March 2016, and as with previous years, it was well attended. The Forum focused on administration issues and year end requirements. Feedback was extremely positive with all respondents either agreeing or strongly agreeing with the following statements:-

- The presentations met my expectations;
- The presenters used language that was clear and easy to understand;
- I found the content of the meeting very helpful; and
- I have a better understanding of our employer role and responsibilities.

Additional Voluntary Contribution (AVC) Providers

The Fund's AVC providers are Prudential and Standard Life. Following positive feedback from previous AVC information sessions, Prudential delivered more AVC information sessions in June 2015 and in March 2016.

Improved Efficiency through IT Development

A main focus in 2015-16 has been the testing and development of Member Self Service (MSS). This application from our pension software supplier, Aquila Heywood, allows members to view and edit the information held on their pension record and perform benefit projections through a secure web site. Additional functionality will allow pensioner members to view their pay slips and amend bank details. The team has worked closely with the Council's Communication Officers to develop a communications strategy to promote this facility.

Development and testing of iConnect has progressed in the year. iConnect is a software application from Aquila Heywood which also integrates with the pension administration system to manage the data flow from the Council's payrolls. iConnect identifies and processes new members, leavers and changes to payroll records and then updates members' pension records accordingly. iConnect will go live this financial year.

Ending of contracting out

The introduction of the new flat state pension scheme from 6 April 2016 brought to an end the option to contract out of the additional state pension scheme. Whilst protections are in place for existing contracting out rights, HMRC's contracting out support services will be scaled down and then withdrawn. HMRC will no longer track contracted out rights and will issue schemes with closure schedules so they can compare the contracted out details with the information held on scheme records. This is known as scheme reconciliation. The team began work on scheme reconciliation in 2015-16 in order to ensure we hold accurate data by the date all HMRC services are withdrawn in December 2018.

Internal Dispute Resolution Cases

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

During the year to 31 March 2016, the Chief Legal Officer dealt with 3 cases. These cases concerned the employer's refusal to grant ill health retirement, to bring deferred benefits into payment early on ill health grounds, and the level of ill health benefits awarded. The employer decision was upheld in 1 case and decisions are pending with the other 2 cases.

THE PENSION YEAR

2015 Pension Increase

The UK Government approved the rate of increase for all public sector pension schemes and state scheme benefits at 1.2%, effective from 6 April 2015. The increase was set by reference to the Consumer Price Index at September 2014.

Legislation

Scheme Specific Legislation

Three Statutory Instruments came into force on 1 April 2015.

- The Local Government Pension Scheme (Scotland) Regulations 2014 changed the scheme to a career average basis for future membership;
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 preserve the final salary nature for membership built up to 31 March 2015; and
- The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 regulations cover the establishment of Pension Boards and the Scheme Advisory Board.

The Local Government Pension Scheme (Scotland) Amendment Regulations 2016 were laid before the Scottish Parliament on 22 January 2016 and came into force on 1 April 2016. These Regulations amend 2014 Regulations to cover cost capping of employer contributions and the requirement to have a Scheme Actuary.

The Local Government Pension Scheme (Scotland) Amendment (No.2) Regulations were laid before the Scottish Parliament on 21 December 2015 and came into force on 2 February 2016. These Regulations made a number of technical amendments to the regulations governing the 2015 scheme in addition to introducing an amendment to the Transitional Regulations to cover employer payments for historic liabilities and amending the 2014 Regulations to provide a grace period of up to three years before a cessation debt payment is required by the Fund Actuary.

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016 were laid before the Scottish Parliament on 4 February 2016. These Regulations increase the proportion of funds that a local authority pension fund can invest in partnerships from a maximum of 15% of the fund to a maximum of 30%.

Primary Legislation

The Pensions Act 2004 (Code of Practice) (Governance and Administration of Public Service Pension Schemes) Appointed Day Order 2015

This Order appointed 1 April 2015 as the day The Pensions Regulator's Code of Practice No.14 - Governance and administration of public service pension schemes came into effect.

In June 2016, The Pensions Regulator published a Compliance and enforcement policy for public service pension schemes. This policy and further information on matters relating to the regulation of public sector pension schemes by the Pensions Regulator can be found on their website. (<http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx>)

Changes to Pension Taxation

Following his announcement in his March 2015 Budget of the reduction to the Lifetime Allowance to £1million from April 2016, the Chancellor's Summer 2015 Budget included complex changes to Annual Allowance for high earners and special transitional rules for the 2015-16 tax year.

The changes are as follows:-

- a tapered allowance will apply from 6 April 2016 for high earners; and
- the alignment of the Annual Allowance 'Pension Input Year' with the tax year.

UK Government Consultations

The UK Government initiated a series of consultations throughout 2015-16:-

- Strengthening the incentive to save: a consultation on pensions tax relief (consultation period ran from 8 July 2015 to 30 September 2015);
- Consultation on a Public Sector Exit Payment Cap (consultation period ran from 31 July 2015 to 27 August 2015); and
- Consultation on reforms to public sector exit payments (consultation period ran from 5 February 2016 to 3 May 2016).

In September, the UK Government announced it was pressing ahead with its proposals for a £95,000 cap on the total value of payments made in connection with the termination of a public sector worker's employment as set out in the July consultation paper. A cap will include the strain on the fund cost for early payment of LGPS benefits.

The proposals are part of the Enterprise Bill which is currently going through the UK Parliament. The Bill includes changes to the Local Government Pension Scheme in England and Wales. It is expected that the cap will take effect from autumn 2016.

Although the consultations on public sector payments only applied to England, the consultation documents state that the Scottish and Welsh Governments and Northern Ireland Executive should determine if and how they want to take forward similar arrangements in relation to their devolved workforces. Accordingly, Fife Council actively participated in the consultation exercises.

The New State Pension and the end of Contracting Out

A single tier State Pension was introduced on 6 April 2016. This ended the contracting out of the State Second Pension Scheme for the LGPS resulting in higher National Insurance contributions for employees and employers. The DWP provided bulletins and communication materials in 2015-16 for employers and employees explaining the implications of the new State Pension Scheme.

INVESTMENT MANAGEMENT ARRANGEMENTS

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

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

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

There were no changes to management arrangements during the financial year.

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

Asset Class	Allocation %	Benchmark
UK Equities	20	FTSE All Share
Overseas Equities (Baillie Gifford and Lazard Asset Management)	23	MSCI All Countries World Index
Overseas Equities (State Street Global Advisors)	12	FTSE RAFI World 3000 Index
Property	10	HSBC/APUT All Pooled Funds Index
Infrastructure & Absolute Return	15	Cash
Bonds	20	Customised
Total	100	

At 31 March 2016, nine mandates were managed by investment managers. The investment managers are delegated the responsibility to invest the assets of the fund in accordance with these agreed mandates.

The investment managers at 31 March 2016 are:-

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

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

In February 2012, the sub-committee put in place a framework agreement with a selection of global equity managers from which the sub-committee could draw from and appoint over the 4 years. The following six managers were appointed to the framework in November 2012:-

- Newton (Global Higher Income);
- M & G (Global Dividend);
- Wellington (Global Value);
- Janus (Global Research Growth);
- Mondrian (Global ACWI); and
- Morgan Stanley (Global Franchise).

The benefit of having a framework from which to draw is that the majority of the tender process has already been completed and it is generally only the final selection and appointment to a mandate which is required. The benefit is, if the sub-committee take the decision to seek a new global equity manager, the appointment can be made in a matter of weeks, rather than months.

Up to 31 March 2016, it has not been necessary to appoint from the framework.

MARKET COMMENTARY

UK Market

In the UK, market expectations for the first increase in Bank Rate moved considerably during 2015-16. However, by the end of the year, market expectations had moved back radically due to fears including concerns that China's economic growth could be heading towards further turmoil; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015, together with continuing Eurozone growth uncertainties.

These concerns caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in the UK surged strongly during both 2013-14 and 2014-15 to make the UK the top performing advanced economy in 2014. However, 2015 was disappointing, with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The UK elected a majority Conservative Government in May 2015, but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

Eurozone

The European Central Bank announced in January 2015 that it would undertake a full blown quantitative easing (QE) programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015, eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, concerns continued that a Greek exit had only been delayed.

International Markets

In America, the economy continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

On the international scene, concerns increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, were in recession. The situations in Ukraine, and in the Middle East with ISIS, also contributed to volatility.

PERFORMANCE COMMENTARY

The fund has returned 0.19% in the year, underperforming the composite benchmark of 0.43% by 0.24% (net of fees). The fund has underperformed the benchmark in the 1 year, 5 year (0.38%) and Inception To Date periods (0.38%), but outperforms the benchmark over the 3 year period by 0.46%, with the 3 year return being 6.69% against a benchmark of 6.23% (net of fees).

The value of investments at 31 March 2016 was £1.854bn, an increase of £24m during 2015-16.

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

- Blackrock, the UK passive manager, produced marginally below the benchmark return mandated;
- Baillie Gifford's Long Term Global Growth mandate, with its unconstrained global equity mandate, returned in excess of the benchmark in 1 year, 3 year, 5 year and since appointed;
- Lazard Asset Management, the second unconstrained manager, although producing portfolio returns of 6.68% since appointment in 2006, still underperformed against benchmark across all periods. £176.884m was disinvested from Lazard in July 2015; to rebalance the portfolio £18.619m was given to both Blackrock and Baillie Gifford (Diversified Growth), £111.717m given to State Street Global Advisors and £27.929m retained in cash; and
- State Street Global Investors was funded in November 2013 in its RAFI Fundamental Indexation Fund. It is slightly behind its benchmark with a return of -3.31% against its benchmark of -3.20%.

The bond managers hold 16% of the fund assets (against a benchmark of 20%) and points to note on these assets are:-

- in the year, Western Asset Management was behind its benchmark, returning 0.66% against a benchmark of 1.73%. In the 3 year period, Western returned 4.49% against a benchmark of 4.81% and, in the 5 year period, returned 6.40% against a benchmark of 7.11%. Since appointed, Western has underperformed its benchmark: 5.29% against 5.91%;
- in the year, Henderson Global Investors (HGI) was also behind its benchmark returning 2.57% against a benchmark of 3.49%. HGI underperformed its benchmark by -0.58% in the 3 years and -0.30% in the 5 years. Since appointed, HGI is slightly ahead of its benchmark, 7.54% versus 7.29%.

Of the remaining mandates:-

- CBRE's property portfolio underperformed its 1 year benchmark of +10.58% by -0.70%. It underperformed its 3 year benchmark of 13% by -2.19% and its 5 year benchmark of 8.96% by -1.39%. Since appointed, CBRE is ahead of its benchmark: 5.59% versus a benchmark of 4.72%;
- the Baillie Gifford Diversified Growth mandate (the absolute returns type fund), returned -1.89% against its benchmark of 0.50% in the year and returned 2.34% against the benchmark of 0.50% in the 3 years;
- infrastructure is managed by Partners Group; the mandate continues to be gradually funded to the extent of 5% of the Fund. Currently, approximately 2.1% of the fund value is invested in infrastructure. At 31 March 2016, £1.3m is held in the Standard Life Investments Liquidity Fund, for future investment in infrastructure; and
- additional, uncommitted cash is held in the Northern Trust Sterling Liquidity Fund. The strategy for this cash is currently under consideration and should be complete by 30 September 2016.

ACTUARIAL STATEMENT

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

Description of Funding Policy

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

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 2/3rds chance that the fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

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

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

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

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2012 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:-

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

* Currently aged 45.

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

Experience over the period since April 2014

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed at that time.

Geoff Nathan FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
04 May 2016

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

THE ADMINISTERING AUTHORITY'S RESPONSIBILITIES

The authority is required:-

- to make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Executive Director Finance and Corporate Services;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- to consider the unaudited accounts no later than 31 August and to approve the audited accounts by 30 September.

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

Signed on behalf of Fife Council

Councillor William Campbell
Chair of the Superannuation and Pension Fund Sub-committee
30 September 2016

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS (cont'd)

RESPONSIBILITIES OF EXECUTIVE DIRECTOR FINANCE AND CORPORATE SERVICES

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

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

The Executive Director Finance and Corporate Services has also:-

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

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2016.

Eileen Rowand
Executive Director Finance and Corporate Services
30 September 2016

THE PENSION FUND ACCOUNTS

2014-15 £m	Fund Account	2015-16			Total £m
		Fife Council £m	Other Scheduled £m	Admitted £m	
	Contributions and benefits				
	Contributions receivable:				
(63.213)	from employers - Normal	(56.768)	(3.668)	(5.580)	(66.016)
(2.773)	from employers - Augmentation	(1.838)	(0.484)	(0.074)	(2.396)
(17.614)	from employees / members	(14.793)	(1.237)	(1.573)	(17.603)
(3.434)	Transfers from other Schemes - Individuals				(1.202)
(87.034)	Total Income				(87.217)
	Benefits Payable				
49.633	Pensions Payable	49.062	1.689	1.460	52.211
13.672	Lump Sum Retirement Benefits	13.294	1.091	0.609	14.994
0.943	Lump Sum Death Benefits	2.191	0.000	0.126	2.317
64.248					69.522
	Payments to and on account of leavers				
0.307	Refunds of Contributions				0.277
0.185	State Scheme Premiums				0.026
2.771	Transfers to other Schemes - Individuals				2.501
0.311	- Group				0.000
9.682	Management Costs				9.436
77.504	Total Expenditure				81.762
(9.530)	Net (additions)/withdrawals from dealings with members				(5.455)
	Returns on Investments				
(22.736)	Investment Income				(22.533)
(209.299)	Profit and Loss on disposal of investments and changes in the market value of investments				5.193
0.097	Taxes on Income - Equities				0.054
(231.938)	Net Returns on Investments				(17.286)
(241.468)	Net (Increase)/Decrease in the fund during the year				(22.741)
1,589.420	Opening net assets of the scheme at 1 April 2015				1,830.888
241.468	Net Increase/(Decrease) in the fund during the year				22.741
1,830.888	Closing net assets of the scheme at 31 March 2016				1,853.629

THE PENSION FUND ACCOUNTS

2014-15	Net Assets Statement	2015-16		
		UK	Overseas	Total
£m		£m	£m	£m
	Investment Assets			
51.716	Fixed Interest Securities - Public Sector	32.832	13.209	46.041
63.064	- Other	43.180	23.469	66.649
543.359	Equities - Quoted	12.740	359.004	371.744
0.000	- Unquoted	0.000	0.000	0.000
37.729	Index Linked Securities - Public Sector	32.182	4.669	36.851
0.333	- Other	0.000	0.000	0.000
165.952	Pooled Investment Vehicles - Unit Trusts - Property	184.612	0.000	184.612
297.390	- Unit Trusts - Other - Quoted	319.337	0.000	319.337
0.000	- Unit Trusts - Other - Unquoted	0.000	0.000	0.000
30.670	- Other Mgd Funds - Property	0.000	40.121	40.121
220.271	- Other Mgd Funds - Other	323.521	0.000	323.521
347.469	- Managed Insurance Fund	351.291	0.000	351.291
2.041	Derivative Contracts	6.182	2.938	9.120
69.172	Cash Deposits	126.919	(15.702)	111.217
2.710	Other Investments - Other	0.000	2.427	2.427
	Investment Liabilities			
(2.041)	Derivative Contracts - Liability	(6.182)	(2.938)	(9.120)
1,829.835		1,426.614	427.197	1,853.811
	Current Assets			
1.884	Contributions due from Employers		1.011	
1.994	Cash Balances		1.361	
0.473	Central Government Debtors		0.825	
2.563	Other Debtors		2.055	5.252
	Current Liabilities			
(2.501)	Unpaid Benefits		(3.149)	
(3.360)	Other Current Liabilities		(2.285)	(5.434)
1.053	Net Current Assets & Liabilities			(0.182)
1,830.888	Net assets of the scheme available to fund benefits at 31 March 2016			1,853.629

The unaudited financial statements were issued on 30 June 2016 and the audited financial statements were authorised for issue by Eileen Rowand, Executive Director Finance and Corporate Services on 30 September 2016.

Eileen Rowand
Executive Director Finance and Corporate Services
30 September 2016

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 2015-16, which incorporates the International Financial Reporting Standards, including 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 and Investment Management Expenses

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

1.9 Cash and Cash Equivalents

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

1.10 VAT

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

1.11 Taxation

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

1.12 Financial Assets

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

1.13 Financial Liabilities

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

1.14 Actuarial Present Value of Promised Retirement Benefits

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

As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of note to the net asset statement (Note 11).

1.15 Additional Voluntary Contributions (AVC)

All local government Pension Funds have an arrangement where members can invest money, deducted directly from pay, through an AVC provider to increase pension benefits. Fife Council's current AVC providers are Standard Life and Prudential. Former providers, Clerical Medical and Equitable Life, no longer accept new admissions.

1.16 Derivatives

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

Derivative contract assets are fair value at bid prices and liabilities fair value at offer prices. Changes in the fair value of derivative contracts are included in change in market value. The value of future contracts is determined using exchange prices at the reporting date. Amounts due from, or owed, to the broker are the amounts outstanding in respect of the initial margin and variation margin.

1.17 Fair value measurement

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

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in

their economic best interest. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability.

2 BASIS OF PREPARATION

The statement of the accounts summarises the fund's transactions for the 2015-16 financial year and its position at the year end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on International Accounting Standard (IAS) 19 basis, is disclosed at Note 11 of these accounts.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the Actuarial Statement.

Financial Assets and Liabilities measured at Fair Value

It is important to recognise the highly subjective nature of determining the fair value of investments which do not have quoted prices in an active market. The fair value of these is based on forward-looking estimates and judgements that involve many factors and is valued by the investment manager using generally accepted valuation principles. The value of such investments held by Fife Council Pension Fund at 31 March 2016 was 681m.

4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The fund engages an Actuary to provide expert advice on these assumptions.	The judgements mentioned are all under review, therefore there is a possibility that the valuation of £2.476bn in Note 11 for the “actuarial present value of the promised retirement benefits” could be under or over stated in the note.
Financial Assets and Liabilities measured at fair value	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using recognised valuation techniques but as these investments are not publically listed there is a degree of estimation involved in the valuation.	The fund has a total of 681m of investment assets which are not based on quoted prices in active markets and therefore. There is a risk that this could be under or over stated in the accounts.
Investment expenses deducted from capital	Quantification of investment management expenses deducted from the capital value of investments involves asking the relevant managers for information and only some of this information can be independently verified. Where the charges relate to an investment as a whole, an estimate is made of the costs applicable to the holding owned by Fife Council Pension Fund.	There is a risk that the cost of investment management expenses deducted from capital may be under or overstated. However, as the costs are included in the fund account by adjusting the change in market value of investments, any inaccuracy in the cost estimate will not change the reported net change in the fund for the year.

5 FUND INVESTMENTS

The value of investment assets has increased by £23.976m in the year. Details on market and fund performance can be found earlier within the Annual Report.

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

	Value at 1 April 2015 £m	Purchases (at cost) and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Unrealised Change in Value £m	Movement in Cash Deposits £m	Value at 31 March 2016 £m
Fixed interest securities	114.781	47.081	(31.036)	(18.136)		112.690
Equities	543.358	215.937	(161.130)	(226.421)		371.744
Index-linked securities	38.062		(1.385)	0.174		36.851
Pooled investment vehicles	1,061.752	29.966	(7.261)	134.425		1,218.882
Derivative contracts:						
- Assets	2.041			7.079		9.120
- Liabilities	(2.041)			(7.079)		(9.120)
	1,757.953	292.984	(200.812)	(109.958)	0.000	1,740.167
Cash deposits	69.172	3.471	(6.894)		45.468	111.217
Other investment balances	2.710	1.117	(0.803)	(0.597)		2.427
Total Investment Assets	1,829.835	297.572	(208.509)	(110.555)	45.468	1,853.811

The above includes : Aquila Life UK Equity Index Fund, valued at £351.3m, managed by Blackrock Investment Management (UK) Ltd; Baillie Gifford Diversified Growth Fund, valued at £174.9m, managed by Baillie Gifford; and MPF Fundamental Index Global Equity Fund, valued at £323.5m, managed by State Street Global Advisors. These investments each exceed 5% of the total value of net assets.

Details of Derivative contracts held at 31 March 2016 are summarised below:-

	Settlement Date	Assets £m	Liabilities £m
Fixed Income Futures			
US CBT UL TREASURY BONDS	June 2016	(2,281)	2,281
LIF LONG GILT	June 2016	11,637	(11,637)
LIF LONG GILT	June 2016	(5,455)	5,455
US 10 YR TREASURY NOTES	June 2016	907	(907)
US 5 YR TREASURY NOTES	June 2016	3,625	(3,625)
US TREASURY BONDS	June 2016	687	(687)
		9,120	(9,120)

The Assets and Liabilities in the table above represent 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 £0.416m (2014-15 £0.099m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on some pooled investment vehicles.

Valuation of Financial Instruments carried at Fair Value

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

Level 1

Investment assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Investment assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

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

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

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable. There were no transfers between level 3 and levels 1 and 2 in the year.

Values at 31 March 2016	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £m	Level 2 £m	Level 3 £m	£m
Investment assets at fair value	1,181.905	519.188	161.838	1,862.931
Investment liabilities at fair value	(9.120)			(9.120)
Net investment assets	1,172.785	519.188	161.838	1,853.811

At 31 March 2016, £107.930m (31 March 2015 £79.650m) of stock was released to a third party under a stock lending agreement. The related collateral held to cover the lending was in the form of Equities and Government Securities.

2014-15 Comparative Figures

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

	Value at 1 April 2014 £m	Purchases (at cost) and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Unrealised Change in Value £m	Movement in Cash Deposits £m	Value at 31 March 2015 £m
Fixed interest securities	104.064	49.459	(30.237)	(8.505)		114.781
Equities	444.297	87.461	(49.945)	61.545		543.358
Index-linked securities	28.560	9.241	(4.858)	5.119		38.062
Pooled investment vehicles	952.856	42.082	(17.441)	84.255		1,061.752
Derivative contracts:						
- Assets	5.619			(3.578)		2.041
- Liabilities	(5.619)			3.578		(2.041)
	1,529.777	188.243	(102.481)	142.414	0.000	1,757.953
Cash deposits	56.286				12.886	69.172
Other investment balances	2.625			0.085		2.710
Total Investment Assets	1,588.688	188.243	(102.481)	142.499	12.886	1,829.835

Details of Derivative contracts held at 31 March 2015 are summarised below:-

		Settlement Date	Assets £m	Liabilities £m
Fixed Income Futures				
	EURX EUR-BOBL	June 2015	3,090	(3,090)
	LIF LONG GILT	June 2015	(11,471)	11,471
	LIF LONG GILT	June 2015	7,728	(7,728)
	10 YR TREASURY NOTES	June 2015	868	(868)
	5 YR TREASURY NOTES	June 2015	3,482	(3,482)
	US TREASURY BONDS	June 2015	(1,656)	1,656
			2,041	(2,041)

6 FUND MANAGEMENT

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

The market value of investments at 31 March 2016 at bid price is analysed by Fund Manager and Mandate as follows:-

2014-15		Manager	Mandate	2015-16	
£m	%	Absolute Return		£m	%
160	8.8	Baillie Gifford	Absolute Return	175	9.4
160		Total Absolute Return Investments		175	
Bonds					
141	7.7	Henderson Global Investors	Global Bonds	145	7.8
149	8.1	Western Asset Management	Global Bonds	150	8.1
290		Total Bonds		295	
Equities					
251	13.7	Baillie Gifford	Global Equities-Unconstrained	263	14.2
348	19.0	Blackrock Investment Management (UK) Limited	UK Equities-Passive	351	18.9
308	16.8	Lazard Asset Management	Global Equities-Unconstrained	122	6.6
220	12.0	State Street Global Advisors	Global Equities	324	17.5
1127		Total Equities		1,060	
Infrastructure					
28	1.5	Partners Group	Infrastructure	40	2.1
28		Total Infrastructure		40	
Property					
188	10.3	CBRE Global Investors	UK and European Property	206	11.1
188		Total Property		206	
3	0.2	Standard Life Sterling Liquidity Fund		1	0.1
34	1.9	Northern Trust		77	4.2
1,830	100.0	Total Net Assets		1,854	100.0

7 INVESTMENT INCOME AND MANAGEMENT COSTS

Investment income received in the year totalling £22.533m is analysed as follows:-

2014-15		2015-16
£m		£m
4.135	Fixed interest securities	4.269
6.491	Equity dividends	4.331
0.315	Index-linked securities	0.366
8.647	Pooled property investments	7.757
2.406	Pooled investments	5.075
0.527	Interest on cash deposits	0.442
0.215	Other	0.293
<u>22.736</u>		<u>22.533</u>

The following costs were incurred in managing the fund for the period ending 31 March 2016:-

2014-15		2015-16
£m		£m
1.877	Administrative costs	1.376
0.386	Oversight and governance costs	0.283
	Investment management expenses	
3.179	Direct costs:-	2.465
4.240	Indirect costs:-	5.312
<u>9.682</u>		<u>9.436</u>

The fund account reflects direct charges to the fund and indirect charges which are deducted directly from capital.

In addition to the costs deducted from capital, indirect costs are incurred through the bid-offer spread on investments' sales and purchases, and are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments. The change in value of investments in 2015-2016 is shown in note 5 of this report.

No performance related fees were incurred in 2015-16 (2014-15 £0.564m included in direct management expenses).

8 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, last updated in November 2015, 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 to the Annual Report.

9 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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 the AVC account and their 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:-

2014-15 Contributions	Fund Value 31 March 2015		2015-16 Contributions	Fund Value 31 March 2016
£m	£m		£m	£m
0.163	1.292	Standard Life	0.114	1.168
0.590	1.468	Prudential	0.687	1.970
0.000	0.144	Clerical Medical	0.000	0.129
0.000	0.183	Equitable Life	0.000	0.160
0.753	3.087		0.801	3.427

There were no significant net transfers in and out of the schemes during the year.

10 RELATED PARTY TRANSACTIONS

Fife Council, the administering authority of the fund, also provides support services for the fund and in 2015-16 charged £1.344m, (2014-15 £1.865m, which included £0.400m charged in 2014-15 relating to 2013-14) for those services.

Fife Council paid employers' contributions to the Pension Fund of £58.605m (2014-15 £56.424m) and collected and paid over employee's contributions of £14.793m (2014-15 £14.784m).

A remuneration report providing disclosures in respect of elected members and chief officers of the council, including those with authority and responsibility for the Fife Council Pension Fund is included in Fife Council's Annual Report and Financial Statements which are available from the council's website at: www.fifedirect.org.uk/budgetandfinance/annualaccounts.

11 ACTUARIAL VALUATION

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

Adjustments have been made to the common rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers and the minimum level of contributions for each employer is detailed in the report. For Fife Council it was recommended that the employer's contribution rate increase from the 22.7% (of payroll), effective during the year ended 31 March 2016, to 23.6% with effect from 1 April 2016, and to 24.5% with effect from 1 April 2017.

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

31 March 2015		31 March 2016
£2,623m	Present Value of Promised Retirement Benefits	£2,476m
	Rate increases assumed in the calculation: -	
2.40%	- Inflation / pension increase rate	2.20%
3.50%	- Salary increase rate	3.40%
3.20%	- Discount rate	3.50%

	Males	Females
Future life expectancies assumed in the calculation :-		
- Current Pensioners	22.0 years	23.7 years
- Future Pensioners	24.1 years	26.4 years

12 CONTRIBUTORS AND PENSIONERS

2014-15			2015-16	
Contributors	Pensioners		Contributors	Pensioners
14,091	10,356	Fife Council	13,984	10,760
2,039	658	Other Scheduled and Admitted Bodies	2,139	728
16,130	11,014		16,123	11,488

13 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

- Liquidity risk
- Credit risk
- Market risk
 - currency risk
 - interest rate risk
 - other price risk

Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. Officers ensure the fund has adequate cash resources to meet ongoing pensioner payroll costs and investment commitments.

The fund's cash holding at 31 March 2016 was £79.5m (31 March 2015 £39.2m). This was held with the following institutions:-

Summary	Rating	Balances as at 31 March 2016 £m	Balances as at 31 March 2015 £m
Money Market Funds			
Standard Life Sterling Global Liquidity Fund	Aaa/MR1+ (Moody's)	1.310	3.349
Northern Trust Cash Current Account (including interest)	Aaa-MF (Moody's)	77.240	33.859
Bank Current Accounts			
Royal Bank of Scotland	A-2	0.959	1.994
Total		79.509	39.202

The fund has immediate access to its cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cashflows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

The Investment Liabilities at 31 March 2016 are due to settle in June 2016.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is provided for in the fund's financial assets and liabilities.

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

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

Market Risk

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

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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

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

Currency Risk

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

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

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

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

The tables below summarise the fund's currency exposure as at 31 March 2016 and 31 March 2015 and the impact of a 10% increase/decrease in the value of the pound on the fund's asset classes.

Market Risk - currency risk 31 March 2016			
	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
Currency Exposure-asset type	£m	£m	£m
Fixed Interest Securities	36,678	40,346	33,010
Overseas Equities	359,004	394,904	323,104
Index Linked Securities	4,668	5,135	4,201
Property	40,120	44,132	36,108
Cash	(15,702)	(17,272)	(14,132)
Other	2,427	2,670	2,184
	427,195	469,915	384,475

Market Risk - currency risk 31 March 2015			
	Asset Value	Asset Value on increase of 13%	Asset Value on decrease of 13%
Currency Exposure-asset type	£m	£m	£m
Fixed Interest Securities	34.196	38.641	29.751
Overseas Equities	509.017	575.189	442.845
Index Linked Securities	6.120	6.916	5.324
Property	30.670	34.657	26.683
Cash	(12.837)	(14.506)	(11.168)
Other	2.710	3.063	2.357
	569.876	643.960	495.792

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Investments are subject to interest rate risks, which represent the risk that the value, or future cash flows, of a financial instrument will fluctuate because of changes in market interest rates.

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

The fund's exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out in the tables below. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

Asset Class	Duration (years)	Asset Values assumed £m	Decrease in Value	Increase in Value
			if assumed increase in interest rate of 1% £m	if assumed decrease in interest rate of 1% £m
Corporate Bonds (short term)	2.4	21.8	(0.52)	0.52
Corporate Bonds (medium term) *	7.2	63.3	(4.56)	4.56
Corporate Bonds (long term) **	12.8	51.0	(6.53)	6.53
UK fixed gilts (short term)	2.1	16.4	(0.34)	0.34
UK fixed gilts (medium term)	6	23.2	(1.39)	1.39
UK fixed gilts (long term)	18.2	27.6	(5.02)	5.02
UK index linked gilts (short term)	2	7.1	(0.14)	0.14
UK index linked gilts (medium term)	9.6	20.8	(2.00)	2.00
UK index linked gilts (long term)	28.1	49.5	(13.91)	13.91

* includes exposure to Overseas Bonds (£8.6m).

** includes exposure to Overseas Bonds (£5.1m).

Asset Class	Duration (years)	Asset Values assumed £m	Decrease in Value	Increase in Value
			if assumed increase in interest rate of 1% £m	if assumed decrease in interest rate of 1% £m
Corporate Bonds (medium term) *	7.8	101.8	(7.94)	7.94
Corporate Bonds (long term) **	12.4	27.6	(3.42)	3.42
UK fixed gilts (short term)	2.0	15.6	(0.31)	0.31
UK fixed gilts (medium term)	7.8	29.4	(2.29)	2.29
UK fixed gilts (long term)	18.1	25.1	(4.54)	4.54
UK index linked gilts (short term)	2.4	1.2	(0.03)	0.03
UK index linked gilts (medium term)	9.6	8.5	(0.82)	0.82
UK index linked gilts (long term)	23.6	66.8	(15.76)	15.76

Other Price Risk

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

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

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

Market Risk - other price risk 31 March 2016					
Asset Class	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
UK Equities	17.10	20.10	373.70	437.60	309.80
Global Equities	19.60	36.90	682.90	816.75	549.05
Infrastructure	10.70	2.00	37.40	41.40	33.40
Property	14.70	10.00	184.70	211.85	157.55
Corporate Bonds (short term)	7.10	1.20	21.80	23.35	20.25
Corporate Bonds (medium term)	9.50	3.40	63.30	69.31	57.29
Corporate Bonds (long term)	18.10	2.70	51.00	60.23	41.77
UK fixed gilts (short term)	3.00	0.90	16.40	16.89	15.91
UK fixed gilts (medium term)	6.70	1.20	23.20	24.75	21.65
UK fixed gilts (long term)	12.30	1.50	27.60	30.99	24.21
UK index linked gilts (short term)	2.30	0.40	7.10	7.26	6.94
UK index linked gilts (medium term)	5.10	1.10	20.80	21.86	19.74
UK index linked gilts (long term)	9.60	2.70	49.50	54.25	44.75
Cash	0.60	6.30	117.00	117.70	116.30
Absolute Return/Diversified Growth	12.70	9.60	177.40	199.93	154.87
		100.00	1,853.80		

Market Risk - other price risk 31 March 2015					
Asset Class	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
UK Equities	17.00	21.40	392.10	458.76	325.44
Global Equities	20.10	39.80	729.60	876.25	582.95
Infrastructure	15.90	1.50	27.90	32.34	23.46
Property	14.70	9.10	165.80	190.17	141.43
Corporate Bonds (medium term)	9.50	5.60	101.80	111.47	92.13
Corporate Bonds (long term)	18.00	1.50	27.60	32.57	22.63
UK fixed gilts (short term)	3.00	0.90	15.60	16.07	15.13
UK fixed gilts (medium term)	6.70	1.60	29.40	31.37	27.43
UK fixed gilts (long term)	12.20	1.40	25.10	28.16	22.04
UK index linked gilts (short term)	2.20	0.10	1.20	1.23	1.17
UK index linked gilts (medium term)	4.80	0.50	8.50	8.91	8.09
UK index linked gilts (long term)	8.60	3.60	66.80	72.54	61.06
Cash	0.60	4.30	78.70	79.17	78.23
Absolute Return/Diversified Growth	12.00	8.70	159.70	178.86	140.54
		100.00	1,829.80		

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

The Fund Asset Value at 31 March 2016 was £1.854bn. The 1 year expected volatility was 11.5% at 31 March 2016, meaning the 'value on increase' would be £2.067bn and the 'value on decrease' would be £1.641bn.

14 EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2016, and up to the date when these accounts were authorised that require any adjustments to these accounts.

15 CONTINGENT ASSETS AND LIABILITIES

At 31 March 2016 there were no contingent assets and no contingent liabilities.

16 IMPAIRMENT LOSSES

No impairment losses have been identified during the year.

17 ACCOUNTING STANDARDS ISSUED, NOT YET ADOPTED

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

Accounting Standards not yet adopted are:-

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions);
- Annual Improvements to IFRSs 2010-12 Cycle;
- Amendments to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation);
- Annual Improvements to IFRSs 2012-14 Cycle;
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative); and
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

ANNUAL GOVERNANCE STATEMENT

Administering Authority

Fife Council, as Administering Authority, has statutory responsibility for the administration of the Local Government Pension Scheme for Fife Council and scheduled and admitted bodies in Fife.

The main functions are the management and investment of the Fife Council Pension Fund (the Fund) and the administration of scheme benefits.

Regulatory Framework

The Public Services Pensions Act 2013 provides the framework for the governance arrangements of public sector pension schemes.

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

The Public Services Pension Act 2013 also provides for greater regulatory oversight of schemes by the Pensions Regulator.

The Council is currently carrying out an audit of its policies, strategies and documentation to ensure compliance with the Pension Regulator's requirements.

Superannuation Fund and Pensions Sub-Committee

Delegation

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

Terms of Reference

The Sub-Committee oversees the supervision and administration of the Fund's investments, sets out the Investment Strategy, appoints Investment Managers and also has regard to all pension scheme matters. The Sub-Committee's Terms of Reference are detailed in Fife Council's Scheme of Administration which can be viewed at:

www.fifedirect.org.uk/uploadfiles/publications/c64_SchemeofAdministration040815.pdf

The Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation of a number of key documents including a Statement of Investment Principles and a Funding Strategy Statement. In addition to setting out the Fund's objectives, these documents also detail the controls in place to mitigate the risks facing the Fund.

The Statement of Investment Principles and the Funding Strategy Statement can be viewed at:

www.fifedirect.org.uk/lgps.

Frequency of Sub-Committee Meetings

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

Representation on the Sub-Committee

The Sub-Committee comprises of nine elected members of Fife Council; in addition there are two employee representatives and two admitted bodies' representatives who are non-voting members.

The membership of the Sub-Committee at 31 March 2016 was:-

Cllr Willie Campbell (Chair)

Cllr Tim Brett

Cllr Ian Chisholm

Cllr Bobby Clelland

Cllr Dave Dempsey

Cllr John Docherty

Cllr Linda Erskine

Cllr Mike Shirkie

Cllr Bill Brown

The Fife Pension Board

The Fife Pension Board came into effect on 1 April 2015 in accordance with the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

Its role to assist Fife Council in securing compliance with:-

- LGPS Regulations and other legislation relating to the governance and administration of the Scheme; and
- Requirements imposed by the Pensions Regulator.

The Pension Board comprises 4 employee representatives appointed by Trade Unions and 4 employer representatives. It meets concurrently with the Pensions Sub-Committee and considers the same agenda. In addition, the Pension's Board will meet separately to consider matters it deems relevant to the activities of the Fund. This allows the Board to ensure compliance.

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

Training

Regular opportunities for training are offered to the members of the Sub-Committee and the Pension Board. In particular, special training is arranged to meet the needs of the Sub-Committee and the Board and the programme of work being undertaken.

Training is delivered by a number of means including external seminars and events, training provided at Committee meetings by external advisers and Council Officers and also briefing papers.

Training activity undertaken is recorded in training registers.

Administration and Management of the Fund

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

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

Fife Council approved and adopted a Code of Corporate Governance (the Code) which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE (Chartered Institute of Public Finance & Accountancy/Society of Local Authority Chief Executives and Senior Managers) Framework "Delivering Good Governance in Local Government".

The work of the Fife Council Pension Fund is governed by this Code and by regulations specific to administration of pension funds.

Executive Director of Finance and Corporate Services

The Council's Executive Director Finance and Corporate Services is the Officer with responsibility to ensure proper administration of the Council's financial matters in terms of Section 95 of the Local Government (Scotland) Act 1973. These arrangements include an internal audit of an internal control environment which should:-

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

In addition the arrangements also include the following:-

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

External Advisers

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

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

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

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

Review of effectiveness

Internal Control

The Council and the Pension Fund have robust systems of internal controls in place to manage administrative, management and investment risks. Internal Controls cannot eliminate risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is an ongoing process designed to identify and prioritise risks to the achievement of the Fund's policies, aims and objectives to evaluate the likelihood of those risks being realised and the likely impact.

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

Risk Management

The Council has a risk management policy which includes a regular review of a risk register. The risk management policy also covers the Pension Fund.

Risk awareness is embedded into the investment performance management process.

Governance Compliance

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

Update on Significant Governance Issues

There were no significant governance issues in 2015-16 specific to the Fife Council Pension Fund and none within the Council's Governance Statement which were relevant to the Fund.

Access to Information

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

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

Steven Grimmond
Chief Executive
30 September 2016

Councillor William Campbell
Chair of the Superannuation and Pension Fund Sub-committee
30 September 2016

GOVERNANCE COMPLIANCE STATEMENT

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

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Representation				
2.1	<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.</p> <p>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;</p> <p>and</p> <p>iv) expert advisors (on an ad-hoc basis)</p>	<p>The Sub-Committee and Pension Board meet jointly.</p> <p>Fife Council is represented.</p> <p>Admitted Bodies are represented by 2 non voting representatives. The Board has 4 employer representatives.</p> <p>Scheme members, including deferred and pensioner scheme members, are represented by two non-voting representatives selected by the JNCF. The Board has 4 employee representatives appointed by the Trade Unions.</p> <p>Independent professional observers are invited on the sub-committee on ad hoc basis as agreed at the August 2011 committee.</p> <p>Attend as required.</p>	<p>Yes</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, and Board representatives receive the same access to all papers and training and are given the opportunity to participate fully in the decision making process.</p>	<p>Yes</p>	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(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?	Reason for non-compliance
			Yes / No / Partial	(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 and the Board.	Yes	
5.3	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Training is offered on an ad hoc basis as needs are identified and also as appropriate. Training is identified from a variety of sources. The adoption of an annual training programme has been considered however, it has been agreed that a flexible approach to the needs of the committee be adopted. A register of attendance is held. The CIPFA Knowledge & Skills Framework Training Needs Analysis has been issued to members to inform ongoing training needs.	Yes	

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

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Scope				
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the sub - committee includes all pension related matters within the terms of Local Government Pension Scheme legislation and the Pensions Regulator requirements.	Yes	
Publicity				
9.1	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	The Annual Governance Statement and Governance Compliance statement are available on the Council's Pensions mini site and are included in the Pension Fund Annual Report.	Yes	

Steven Grimmond
Chief Executive
30 September 2016

Councillor William Campbell
Chair of the Superannuation and Pension Fund Sub-committee
30 September 2016

**FIFE COUNCIL PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES
(November 2015)**

1.0 Introduction

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

2.0 Governance and Effective Decision Making

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

3.0 Clear Objectives and Areas of Risks and Liabilities

- 3.1 The primary aim of the Fund is to ensure that benefits due to members and their dependants are paid when they fall due.
- 3.2 The Sub-Committee approves a Funding Strategy Statement, the main aim of which is to:-

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

3.3 Risk

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

(a) Solvency Risk and Mismatching Risk

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

(b) Manager Risk

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

The Fund's investment strategy has been in place since 1 July 2011. The expected long-term return, based on market conditions as at 30 September 2015, has been estimated by the Fund's investment consultant to be 6.0% p.a. The Committee notes that this estimate will change over time as market conditions evolve, and accordingly will review the Fund's structure and investment strategy on a periodic basis.

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

- 3.8 The Fund's investment management arrangements are fully reviewed regularly in accordance with practice approved by the Sub-Committee.

The following is the Total Fund strategic benchmark from 1 July 2011:-

Asset Class	Allocation %	Benchmark
UK Equities	20.0	FT All Share
Overseas Equities	35.0	MSCI All Countries World Index
Property	10.0	HSBC/APUT All Pooled Funds Index
Absolute Return	10.0	UK Base Rate
Cash/Infrastructure	5.0	UK Base Rate
Bonds	7.5	FT Over 15 Years Gilts Index
Bonds	7.5	iBoxx Sterling Over 10 Years Index
Bonds	5.0	FT Index-Linked Over 5 Years Index

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

4.0 Performance Assessment

- 4.1 An independent performance management company is appointed to provide regular reports for Sub-Committee members. These reports detail the investment performance of the Fund managers. In addition, an annual report is provided to the Sub-Committee, outlining the performance of the Fund against its benchmark and for each individual Fund manager in relation to the Fund managers' set investment objectives and 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, they are 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 are also expected to enter into dialogue with companies in which they invest in relation to the pursuance of socially responsible business practices, and report regularly to the Sub-Committee on these activities.
- 5.2 Corporate Governance is a key responsibility for institutional shareholders and Fife Council believes that having engaged owners who are clear about their expectations will help companies produce sustainable value and that companies' long-term financial returns are connected to their strategic, environmental, social and governance performance. As of 1 May 2013, as administering authority, Fife Council appointed a specialist provider, Hermes Equity Ownership Services, (HEOS), to act as its agent in carrying out voting and to engage in Environmental, Social and Governance (ESG) issues with investment managers and companies in which the Fund invests and to cast votes on behalf of the Fund. As a matter of principle, the Fund seeks to exercise all of its voting rights in respect of its shareholdings. It is recognised, however, that, in practical terms, this may not always be possible for overseas holdings. It is also recognised, that from time to time, the decision will be taken to abstain from voting due to insufficient information

being made available (not the fault of the company concerned) or to support the achievement of an engagement objective with the company. HEOS typically conducts engagement and voting related dialogues with companies in confidence and will not disclose Fife Council Pension Fund's involvement in such engagements, unless specifically agreed in advance.

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

6.0 Transparency and Reporting

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

7.0 Compliance

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

Finance and Corporate Services
Fife House
Glenrothes
November 2015

THE FIFE COUNCIL PENSION FUND AND THE MYNERS PRINCIPLES

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

	Principle	Arrangements in Place
3	<p>Risk and Liabilities</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>A triennial actuarial valuation is carried out by the Fund's actuaries and the results and impact of this are considered when reviewing the investment strategy of the fund.</p>
4	<p>Performance Assessment</p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p>	<p>Independent performance measurement of the fund assets and the fund managers is carried out by Northern Trust.</p> <p>During the term of each sub-committee, a full review of the investment management arrangements is considered and progressed as and if appropriate.</p> <p>Information on attendance at trainings is provided annually to the sub-committee for review.</p>
5	<p>Responsible Ownership</p> <p>Administering authorities should:- Adopt, or ensure their investment managers adopt or explain their approach to the UK Stewardship Code on the responsibilities of shareholders.</p> <p>Include a statement of their policy on responsible ownership in the statement of investment principles.</p> <p>Report periodically to scheme members on the discharge of such responsibilities.</p>	<p>Hermes Equity Ownership Services (HEOS) has been appointed to assist the Fund in meeting its fiduciary responsibilities in the areas of engagement and voting.</p> <p>All investment managers have confirmed compliance with the Stewardship Code or explained their alternative strategy. HEOS will also engage with the investment managers and companies in which the Fund invests.</p> <p>The Fund's Statement of Investment Principles (SIP), outlines that managers must consider socially responsible investment issues as part of their investment strategy.</p> <p>Regular reports are presented to committee demonstrating appropriate actions taken.</p>

	Principle	Arrangements in Place
6	<p>Transparency and Reporting</p> <p>Administering authorities should:- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment , its governance and risks, including performance against stated objectives.</p> <p>Provide regular communication to scheme members in the form they consider most appropriate.</p>	<p>An annual report and statement is provided to all Fund members.</p> <p>An annual meeting is held for employers.</p> <p>The Pension Fund Annual Report is made available on the FifeDirect website.</p>

FIFE COUNCIL PENSION FUND COMMUNICATION POLICY

(June 2015)

Introduction

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

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

A policy statement must set out:-

- the provision of information and publicity of the scheme to members, representatives of members and scheme employers;
 - the format, frequency and method of distributing information and publicity; and
 - the promotion of the scheme to prospective members and scheme employer;
- This statement summarises how the fund communicates with members, employers and other stakeholders.

Communications Objectives

The key objectives of the fund's communication policy are:-

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

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

- factual and presented in plain language;
- designed to meet the needs of each target audience; and
- use the most efficient and effective means of delivery.

Key Audiences

The fund has identified the following distinct groups with whom it needs to communicate with:-

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

Communication Tools and Strategy

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

Active Scheme members – currently contributing to the Scheme

By post

- statutory confirmation of membership;
- annual benefit statement;
- on request, communications can be provided in alternative formats including braille, translation and audio; and
- correspondence relating to members' benefits.

In person/phone

- one-to-one meetings;
- contact telephone numbers publicised in scheme literature; and
- roadshows, induction/retirement talks – at request of employer.

Email/Website

- dedicated email address for queries;
- email used to receive and send correspondence where appropriate;
- website www.fifedirect.org.uk/lgps providing an extensive range of scheme literature including scheme guides, leaflets, policies, the valuation report, Pension Fund Annual Report and the Funding Strategy Statement. Literature is updated accordingly;
- website has links to other useful websites including www.scotlgps2015.org which provides full details on the new LGPS effective from 1 April 2015;
- newsletters updating members about scheme changes; and
- global emails promoting the scheme, for example introducing the new scheme from 1 April 2015 and AVC information sessions.

Pensioner Members – those receiving a pension from the Fund

By post

- correspondence relating to members' benefits;
- on request, communications can be provided in alternative formats including braille, translation and audio;
- payslip once a year detailing pension increase and lifetime allowance certificate; and
- annual newsletter.

In person/phone

- one-to-one meetings; and
- contact telephone numbers publicised in scheme literature.

Email/Website

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

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

By post

- annual benefit statement;
- annual newsletter;
- correspondence relating to members' benefits; and
- on request, communications can be provided in alternative formats including braille, translation and audio.

In person/phone

- one-to-one meetings; and
- contact telephone numbers publicised in scheme literature.

Email/Website

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

Scheme Employers

The fund communicates with scheme employers in the following ways:-

- Annual Employers' Forum;
- employer newsletters giving updates on legislation and policy matters;
- wording of global emails/intranet messages provided for employers to cascade down to scheme and potential members;
- pension administration strategy setting out the roles, responsibilities and service standards for the fund and employers;
- Statutory Annual Report on the fund;
- promotion of pension website. Guides/leaflets and forms can be downloaded from the site www.fifedirect.org.uk/lgps;
- presentations/briefings on request; and
- training and support provided by team members on technical, procedural and policy matters.

Prospective Members

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

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

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

Representatives of Members

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

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

The HR/Payroll & Pension Transaction Team assists Trade Union representatives with member queries.

Superannuation and Pensions Sub Committee and the Fife Pension Board

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

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

Development Priorities

A key priority is to improve the digital delivery of our communications. The HR/Payroll & Pension Transaction Team is working closely with the Council's Communications Officers to enhance the web site.

We are currently working to introduce a self-service system for employers. The system will integrate with the pension administration system to manage the data flow from employers to the team.

A project team is also working closely with the Council's IT Service to introduce an on-line portal for members to access their Local Government Pension Scheme records. This facility will allow members to update their personal data, ask questions, access annual benefit statements and

request pension estimate calculations. Pension members will also be able to view their pension records.

Evaluation

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

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

Contact Details

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

Opening Times: Monday to Friday 8.30 am to 5.00 pm

Telephone: 01592 583278

Email: pensions.section@fife.gov.uk

Website: www.fifedirect.org.uk/lqps

ADDITIONAL INFORMATION

Fund Advisors as at 31 March 2016

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

Comments and Suggestions

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

Please email your comments to: Pensions.section@fife.gov.uk

Contact Details

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

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

For benefit information, address to the HR/Payroll & Pension Transaction Team.

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

Email: Pensions.section@fife.gov.uk

Telephone: 01592 583278

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

I certify that I have audited the financial statements of Fife Council Pension Fund for the year ended 31 March 2016 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 2015/16 (the 2015/16 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 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Executive Director Finance and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director Finance and Corporate Services is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. My 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 me 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 Finance and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the financial transactions of the fund during the year ended 31 March 2016, 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 2015/16 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.

Opinion on other prescribed matter

In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required 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; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA
Assistant Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

30 September 2016

