Dumfries and Galloway Council Pension Fund

Annual Report and Accounts 2017/2018

Dumfries & Galloway COUNCIL

Contents

Foreword

Introduction
The Financial Statements included in this document present the Pension Fund's financial position for the year ended 31 March 2018. These have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), supported by International Financial Reporting Standards.

The purpose of these Accounts is to provide clear information about the Pension Fund's financial position and this Foreword is intended to give a guide to the most significant matters reported in the Accounts.

The Pension Fund's Financial Position
The net value of the Pension Fund's assets as at 31 March 2018 was £856.4 Million, an increase of £19.6 Million during the year. Details of these movements in the net value of the Fund's assets are provided in the Fund Account and can be summarised as follows: -

Opening Value at 1 April 2017	£836.8 Million
Add Contributions (Scheme Members and Employers)	£30.6 Million
Less Benefits Paid, Transfers Out and Other Expenses	(£35.0 Million)
Add Gain on Investments	£24.0 Million
Closing Value at 31 March 2018	**£856.4 Million**

The net gain of £24.0 Million on investments includes £17.1 Million for increases in market values, with the remaining £6.9 Million in respect of net investment income.

The Fund is subject to a detailed actuarial valuation process on a triennial basis. The most recent valuation (as at 31 March 2017) indicated that the Fund was in deficit with the value of assets equating to 92% of projected future liabilities. Employer contributions have been set to seek to address this deficit in the medium to longer term. This approach will be subject to further review based on future triennial valuations.

Acknowledgement
I would like to thank elected Members and colleagues for their assistance and support throughout the year in maintaining and promoting a sound financial management and control framework. I would also like to thank those staff whose efforts have contributed to the preparation of the Annual Report & Accounts.

Paul Garrett
Head of Finance & Procurement
27 September 2018

Management Commentary

The Fund

Under the terms of the Local Government Pension Scheme, Dumfries & Galloway Council is designated as a Scheme Manager (Administering Authority) and is required to operate and maintain a pension fund - the Dumfries & Galloway Council Pension Fund ("the Fund").

The Fund is used to pay pension, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by active (i.e employee) members and by participating employers. The Fund also receives income from the assets it holds, which include equities, property and bonds.

As well as Dumfries & Galloway Council, participating employers are:

- Dumfries and Galloway College,
- Scottish Police Services Authority,
- Scottish Police Authority,
- Scottish Fire & Rescue Service,
- Visit Scotland,
- The Crichton Trust,
- Dumfries and Galloway Housing Partnership,
- Community Integrated Care,
- Shanks Group plc,
- Amey plc,
- Lovell plc,
- Scottish Agricultural College (Barony).

Scheme membership is made up of active members, deferred members and pensioner members. To be eligible for fund membership, you must be an employee of a participating employer and not eligible to join one of the other public sector pension schemes.

An actuarial valuation of the Fund is held every three years as an independent financial health check and determines how much money has to be paid into the Fund to keep it in a position to pay benefits both now and in the future. The last valuation as at 31 March 2017 showed that the Fund was 92% funded, meaning that it had 92% of monies needed to pay all the future benefits of scheme members. It is important to note that the time horizon of the Fund is long term. Consistent with this, there is a Funding Strategy Statement which allows employers with strong financial covenants to recover a deficit position over 15 years. Moreover, there is a stability mechanism used to help employers budget for their contributions by limiting increases or decreases to future contribution rates.

Administration of the Fund is undertaken in-house by the Pensions Section.

Investment Management of the Fund is undertaken by external fund managers and overseen by the Council's Treasury and Capital Team.

Investment Management

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 and the Fund's Funding Strategy Statement give more information on the Fund's investment framework.

Following a review in 2012, the Pensions Sub Committee, in conjunction with Hymans Robertson LLP, investment advisors to the Fund, agreed an investment strategy with the following strategic asset allocation.

Asset Class	% Allocation
Equities	62
Bonds	15
Property	10
Alternatives	
- Absolute Return	10
- Emerging Market Debt	3
Total	**100**

Following the completion of the 2017 valuation, at the meeting of 24 May 2018 the Sub Committee agreed to instruct Hymans Robertson to carry out a review of the investment strategy with a view to implementing a revised strategy later in 2018. Currently seven managers are appointed, and they have been delegated the responsibility to invest the Fund's assets in accordance with agreed mandates. The managers are:

Manager	Mandate		Benchmark
Legal & General	UK Equities	Passive	FTSE All Share
Legal & General	Global Equities	Passive	MSCI World Index
Legal & General	Bonds	Passive	Bespoke
Legal & General	Emerging Market Debt	Passive	JPM Govt Bond Index – Global Diversified Index
Franklin Templeton	Global Equities	Active	MSCI All Country World
Lothbury	Property	Active	IPD All Balance Funds
Columbia Threadneedle	Property	Active	IPD All Balance Funds
RREEF	Property	Active	IPD All Balance Funds
BlackRock	Property	Active	IPD All Balance Funds
Baillie Gifford	Absolute Return	Active	Absolute Return

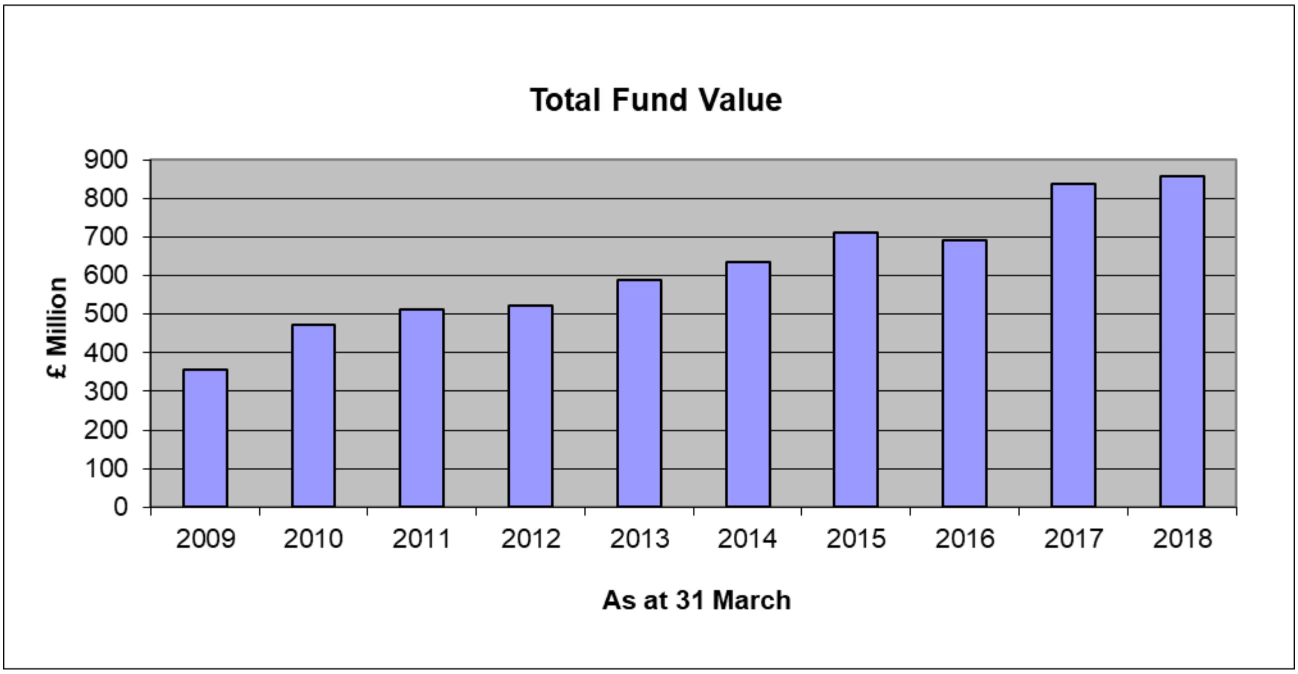
During the year the Alliance Bernstein active global equity mandate was replaced with a passive mandate under the management of Legal & General. The assets were successfully transferred to the new manager in August 2017.

Performance

The fund has faced challenging times in recent years with unprecedented events and market conditions. Key points on performance are:

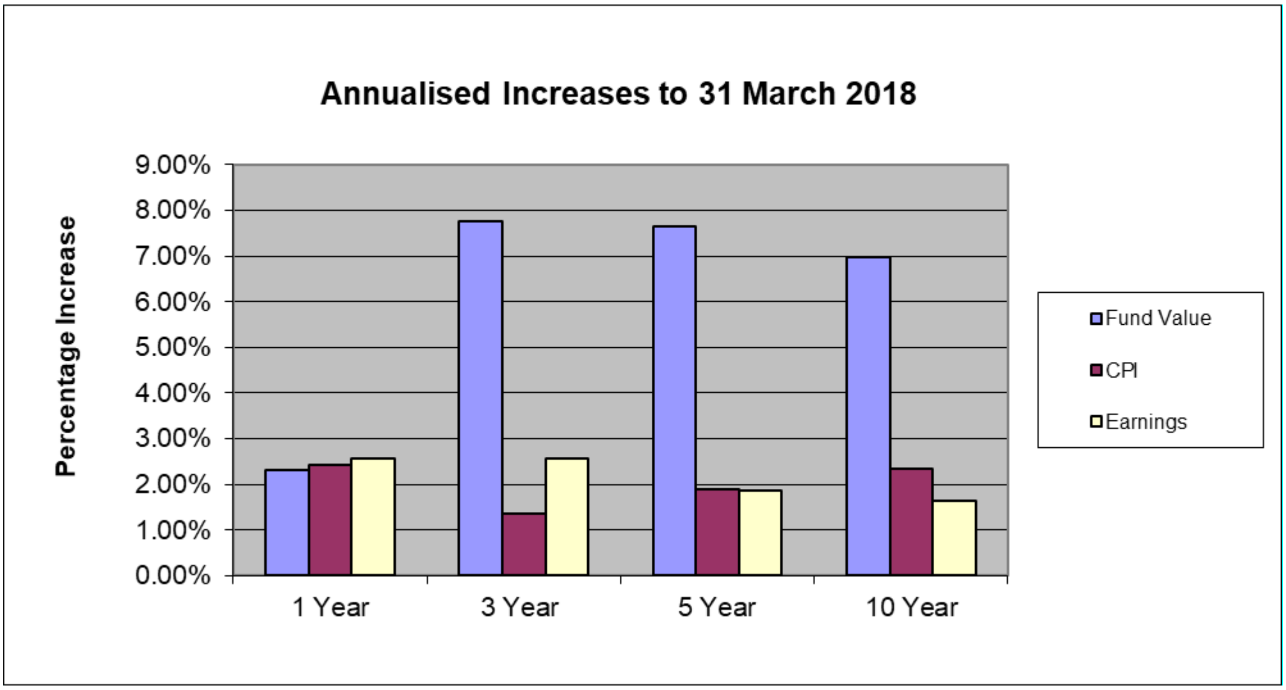
- investment returns were 2.3% during 2017/18, slightly below the benchmark of 2.4%,
- annualised investment returns are below benchmark over the three year period, being 6.8% against a benchmark of 7.3%,
- over the five year period annualised investment returns are slightly ahead of benchmark being 8.3% against a benchmark of 8.2%,
- passive manager Legal & General was in line with benchmark for both its UK equity and bond mandates for the last twelve months. Full year results are not yet available for the global equity mandate, but performance is in line with benchmark for the part year since inception.
- Franklin Templeton, the active global manager, under-performed during the year,
- The four property managers slightly performed below benchmark during the year,
- Baillie Gifford was above benchmark for the year.

Recent investment returns, along with slightly negative net cash flows from the Fund resulting from contributions received less benefits paid have resulted in the total Fund value increasing from £836.778 Million at 31 March 2017 to £856.357 Million at 31 March 2018. The Fund has seen an increase in value from £436.045 Million since March 2008. Annual values are shown in the following graph.



Although the increase in Fund value last year was below price and wage inflation, two of the main areas to which the liabilities of the Pension Fund are linked, annualised increases over the last ten year period have been ahead of inflation. The figures over one, three, five and ten years are shown in the following table and graph.

Annualised Increases Over	1 Year %	3 Years %	5 Years %	10 Years %
Net Fund Value	2.33	7.77	7.65	6.98
Consumer Price Index (CPI)	2.44	1.36	1.88	2.33
National Average Earnings	2.56	2.57	1.86	1.64



Trends and Influences

Following the 2008 financial crisis, the European Commission instigated a review of its Markets in Financial Instruments Directive (MiFID). The Financial Conduct Authority (FCA) consulted on the implementation proposals for MiFID II during 2016 and 2017, resulting in a final policy statement effective from 3 January 2018.

The FCA policy reduced the classification of LGPS from “professional” to “retail”. As a retail client LGPS Funds would face reduced investment opportunities and the potential need to offload assets in advance of MiFID II coming into effect. The FCA recognised this and introduced a combination of qualitative and quantitative tests to enable LGPS funds to opt up to professional status.

The size of the Fund satisfied the requirements for the Quantitative test. In recognition of typical LGPS governance arrangements, in order to satisfy the requirements of the Qualitative test the policy statement states that “Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions”. The Fund was able to demonstrate that it had an appropriate training package to ensure that the Sub Committee Members have the knowledge and understanding required to meet their obligations and was therefore able to opt up to professional status successfully by the due date.

Priority will continue to be given to an ongoing training package so ensuring that members of both the Pensions Sub Committee and Pensions Board have the necessary knowledge and skills required to carry out their duties on behalf of the Fund going forward.

As membership of the Fund rises the active/deferred/pensioner ratio continues to show a reduction in the percentage of active members within the fund. This has led to a position in recent years where cash receipts from contributions have had to be supplemented with investment income to meet benefit liabilities. This situation is expected to continue, and is an issue being addressed in the current investment strategy review being carried out for the fund. At the Sub Committee meeting of 24 May 2018 agreement was made for a modest switch from growth seeking assets to return seeking assets as a move towards improving the cash flow position of the Fund.

Following the substantial rise in markets during 2016/17, returns were more subdued in 2017/18. Volatility continued within global markets, and uncertainty continues in the future. As before, the impact of both the ongoing BREXIT negotiations, and the effect of the new US administration are seen as key influences.

There were limited rises in interest rates during the past year, resulting in a modest increase in discount rates. Expectations are that there will be a tightening of monetary policy during 2018 as central banks reduce their level of support for economies. This, along with anticipated increases in inflation give rise to further increases in interest rates and discount rates.

Pensions Administration Review

This section provides an update on arrangements made during 2017/18 for the administration of the Dumfries and Galloway Council Pension Fund.

Staffing

Administration of the Fund is in-house and undertaken by the Pensions Section with the Organisational Development, Human Resources and Assets function of the Council.

The section consists of 6 employees although the full-time equivalent is 5.8.

The Section comprises of the following:

Role	**No.**	**Average Years of Council Service**
Team Leader Pensions	1	26 years
Senior Pensions Assistant (Systems)	1	15 years
Senior Pensions Assistant (Benefits)	1	8 years
Pensions Assistant (Systems)	1	17 years
Pensions Assistant (Benefits)	2	3 years

Strategic Objectives

- To deliver a professional, high quality service through having highly skilled, motivated and empowered staff,
- To be fully accountable to all stakeholders for the governance of the Fund and for Scheme administration.

Values

- Supporting Customer First,
- Continuous improvement,
- Value for money,
- Performance Management.

Service Objectives

The Pensions Section objectives are encompassed within the overall HR objectives as contained within the Chief Executive Service Business Plan. The specific service objectives are:

- to provide a fully integrated pensions service from during recruitment to retirement,
- to provide a fully integrated pensions service to all other pension business,
- to provide high quality of service throughout,
- to provide access to a wide range of services to all members,
- develop/maintain administration systems, provide management information, ensure financial advice service, deliver personal support to employees, pensioners and dependants and relatives.

Systems

The Council uses the Aquila Heywood's pension administration system Altair. This system is used in all 11 Administering Authorities in Scotland.

The system records a record for everyone who has a pension liability from the Fund and records retirements, deaths, transfers, refunds etc. in the Local Government Pension Scheme.

The Council's HR/Payroll system, known as iTrent pays pensioner benefits and this is managed by the Council's Finance and Procurement function. However, the Pensions Team has direct access to iTrent and can make amendments to payroll pensioner records.

The Altair system is supported by Aquila Heywood on both software and hardware sides. Back up and secure data storage is managed by Aquila Heywood.

Risk Management

The administration service considers the risks associated with the service and is regularly audited to ensure that appropriate risk mitigation is considered for each control. The types of risks which have been identified are;

- key person risk - where smaller administering authorities are sensitive to the knowledge and experience held by a small number of individuals,
- data risks – the system contains sensitive and personal data but appropriate securities are in place to keep the data secure and recover where necessary,
- hardware risks – where hardware fails then appropriate support is provided on a 24/7 basis to ensure the smooth running of the operation,
- financial management risks – monetary amounts are processed on a daily basis and appropriate controls are in place to authorise payments.

Activity Review 2017/18

General

The Section successfully completed all of its statutory functions, e.g. the payment of pensions and lump sum benefits and the issuing of annual statements, in the required timescale.

Performance Review

High quality administration continues to be a key focus for the service to ensure compliance with the regulations and to provide members and their families/representatives with an excellent customer service. Our customer approach means that the team respond quickly to customer enquiries while maintaining a high-quality service.

Pension Reconciliation Review

A full review of pensions in payment took place in 2017 to reconcile the pensions administration system with the payroll system resulting in the implementation of a revised process of applying future annual increases to pensions. A new monthly reconciliation process is in place to ensure that future pensions are calculated correctly.

Early Retirement/Voluntary Redundancy (ERVS)

The Council continued to operate an ERVS scheme and the Pensions Section provides administrative support for this process and for early retirement schemes for the Fund's Admitted and Scheduled external employers. The current Council policy to apply compensatory added years in cases of early retirement on grounds of redundancy and business and efficiency remains in place. The Scottish Government is currently undertaking a review of compensation schemes offered in local government the result of which is likely to be published summer 2018.

National Fraud Initiative

As part of the National Fraud Initiative (NFI) 7,099 pensioner and deferred pension records were reviewed and compared with data held by the DWP in 2017. This is part of the bi-annual counter fraud exercise and requires the review of LGPS pensions in payment against information the Department for Work and Pensions (DWP) supply who they believe have died. Of the 7,099 records tested, 290 records matched the NFI database and were subsequently investigated and reported to DWP. No cases of fraud or error were subsequently found.

The General Data Protection Regulation (GDPR)

GDPR is a new set of European Union (EU) regulations which came into force on 25 May 2018. It changes how organisations process and handle data, with the key aim of giving greater protection and rights to individuals. The Pensions Section already have procedures in place which comply with similar data protection principles under the Data Protection Act 1998. The new regulations reinforce these existing requirements. Pensions procedures and documentation have been updated to fully comply with the new requirements.

Communications

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

The Pensions Section prepares and maintains the communication policy for the Dumfries and Galloway Council Pension Fund. The key objectives of the communication policy are

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

Details of the LGPS, including enrolment, contributions, benefits and updates on legislation can be found on the Council's website at http://www.dumgal.gov.uk/pensions.

Customer Engagement

Customer engagement and communications were increased during 2017/18:

- Annual pension forecasts for active and deferred members,
- Pension forecast information workshops and drop in sessions
- Cost of living increase information and newsletter for pensioner members,
- Pre-retirement and Planning for Your Future workshops
- LGPS 2015 Scheme Guide
- National LGPS (Scotland) 2015 website
- Local LGPS website
- Local employer engagement sessions
- Customer satisfaction survey
- Home visits in cases of bereavement and ill health

Performance

In 2015 the Pensions Regulator (TPR) assumed responsibility for setting standards for good administration, data quality and governance of public sector pension schemes including the Local Government Pension Scheme (LGPS). TPR requires schemes to improve the standard of record keeping by ensuring data is complete, accurate and up to date ("testing data"). In doing so we will identify, evaluate, monitor and manage risk and ensure the effective administration and valuation of the scheme.

Performance standards are set out in the Administration Strategy and these are reported annually to Members. Key Performance Indicators for 2017/18 were reported at committee to Members in May 2018 and include the following:

	Target	2016/17	2017/18
Key statutory deadlines met (including payment deadlines)	100%	100%	100%
Annual member Admin Cost	Under £25.00	£19.13	£23.85
Staff/Member ratio	n/a	1:2,598	1:2,569
Number of complaints		3	5
Payment of lump sum on death (15 days of info received) *	90%	100%	100%
Payment of retirement pension (10 days of info received)	90%	100%	94%
Early leaver payment of refund (30 days)	90%	70%	89%

(* increased from 10 days during 2017. 75% of payments made in 2016/17 within 10 days)

Fund Actuary

Hymans Robertson LLP is the Council's Pension Fund Actuary.

The Next 12 Months

Guaranteed Minimum Pension Review
In 2016, the Government announced that Public Sector Pension Schemes needed to review pension data which linked LGPS benefits to contracted-out employment and the State Pension. This is known as the Guaranteed Minimum Pension (GMP) data reconciliation review. The work is significant and ongoing and will be complete by December 2018. The purpose of this review is to ensure that records held by the scheme and by Her Majesty's Revenue and Customs (HMRC) are correct. Where the data is incorrect then this could result in an overpayment or underpayment in pension. Where there has been an underpayment then Scottish Ministers have advised that payments must be adjusted by Authorities and arrears paid. The treatment of overpayments has yet to be finalised by Scottish Ministers. Work on this project is ongoing.

Customer engagement
Although membership continues to increase with fewer members opting out there are still opportunities to promote the scheme and proactively engage with non-members to encourage participation in the scheme. Our customer focus objective is to continue to target non-members during 2018/19.

Membership to the Scheme

The membership profile of Dumfries and Galloway Council Pension Fund is as follows; -

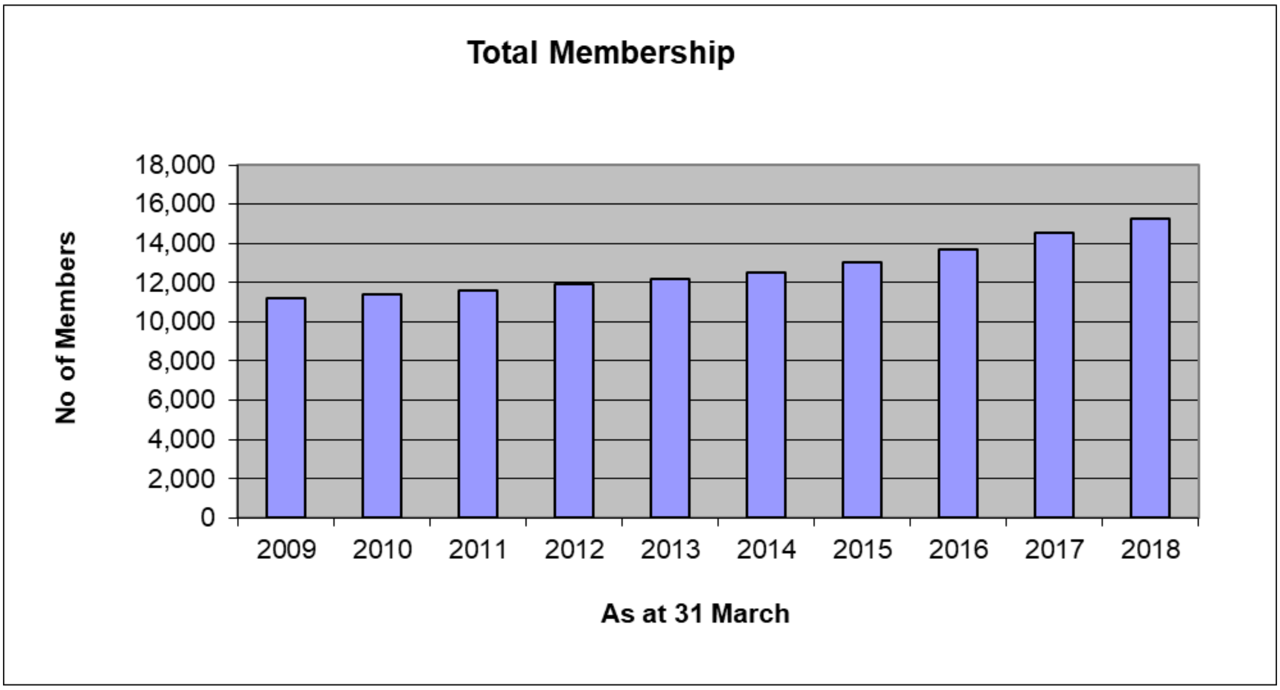
Scheme Members	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Active	5,288	5,286	5,404	5,786	5,824	6,047
Pensioner	3,597	3,781	3,969	4,165	4,448	4,660
Deferred	3,331	3,462	3,692	3,723	4,277	4,542

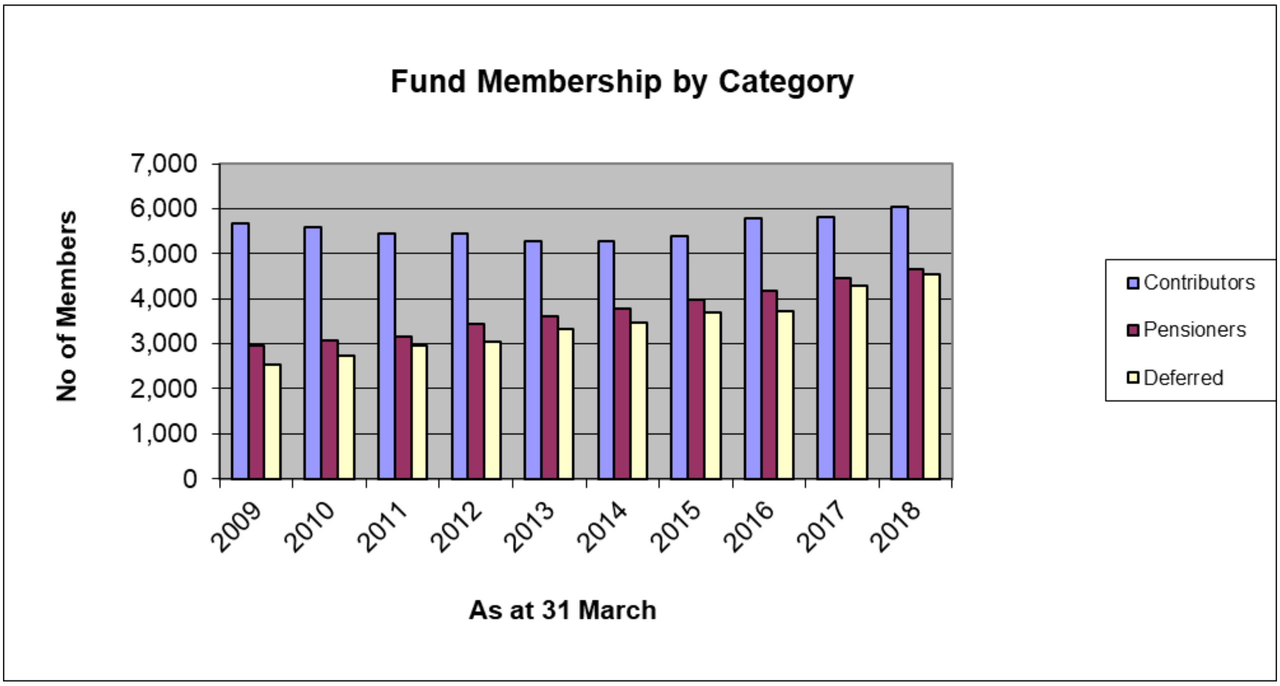
- active – a person who is employed with the Council or an Admitted or Scheduled Body to the Fund and is contributing to the LGPS,
- pensioner – a person who has retired and in receipt of a pension, includes dependents,
- deferred – a pension that has been left 'frozen' and is payable at normal retirement date.

Membership numbers are most commonly affected by persons joining or leaving the scheme as part of normal staff turnover. From time to time, however, there can be more significant membership movements resulting from factors such as economic circumstances or changes in scheme rules.

In general, there has been a steady increase of membership since 2003. Our members value the pension scheme and the high intake and the introduction of Automatic Enrolment demonstrates that.

The first graph of total Fund membership since 2009 shows a steady increase in membership over the first part of the period, with the rate of interest slowing in the later years. The second graph shows an emerging trend where the number of pensioner and deferred members is increasing. Such a trend, if maintained, will have implications on the Fund's cash flows, investment strategy and contribution rates.


Total Membership
No of Members
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
As at 31 March


Fund Membership by Category
No of Members
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
As at 31 March
Contributors
Pensioners
Deferred

Governance Statement

Annual Governance Statement

Dumfries & Galloway Council acts as Administering Authority and delegates all pension scheme investment business to its Pensions Sub Committee which meets quarterly.

The Sub Committee comprises eleven Elected Members. As at 31 March 2018 these were:

- Councillor Adam Wilson (Chair)
- Councillor John Campbell (Vice Chair)
- Councillor Ian B Carruthers
- Councillor Malcolm Johnstone
- Councillor Henry McClelland
- Councillor Jim McColm
- Councillor Elaine Murray
- Councillor Graham Nicol
- Councillor Matthew Ronnie
- Councillor Stephen Thompson
- Vacancy

The Sub Committee's key responsibilities are:

- establishing and reviewing investment strategy,
- ensuring the suitability and adequate diversification of investments,
- setting strategic asset allocation benchmarks and individual manager's benchmarks and targets,
- reviewing on a regular basis the investment managers' performance,
- the selection and appointment of investment managers and custodians, as required,
- all issues relating to the administration and payment of benefits.

The Pension Board was established in March 2016 as required by The Local Government Pension Scheme (Governance) (Scotland) Regulations 2016. Membership of the Board consists of four employer representatives and four Trade Union representatives. As at 31 March 2018 these were:

- Councillor David McKie (Dumfries and Galloway Council) (Chair)
- Grant Coltart (UNISON) (acting as substitute for GMB representative)
- Councillor Douglas Fairbairn (Dumfries and Galloway Council)
- Karen Hunter (Dumfries and Galloway College)
- John McIntosh (UNITE)
- Sheelah Smith (UNISON)
- David Stainthorpe (UNISON)
- Councillor Andrew Wood (Dumfries and Galloway Council)

The Board is required to rotate the position of Chair between employer and Trade Union representatives on an annual basis. The role will revert to the Trade Union representatives with effect from the next joint meeting, with the Chair being appointed in advance of the next meeting of the Sub Committee.

The responsibility of the Pension Board is to assist the scheme manager in securing compliance with the Regulations and the requirements imposed in relation to the Scheme by the Pensions Regulator. The Pensions Sub Committee continues to have responsibility for all pension matters.

The management of the Pension Fund is governed by a suite of appropriate management arrangements, such as:

- appropriate strategic investment policies (such as the Funding Strategy Statement and Statement of Investment Principles);
- performance management arrangements, especially for Fund investments
- systems of internal control to safeguard assets and ensure best value;
- engagement with stakeholders and clear policy on representative roles and responsibilities;
- Governance Statement;

The Council as Administering Authority of the Pension Fund has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control. The review of effectiveness is informed by assurances from

- the work of professional accountancy staff within the council,
- effective performance reporting arrangements and management information;
- specific internal audit reviews;
- the annual report and accounts; and
- external audit observations, comments and recommendations for improvement.

These arrangements provide an acceptable level of assurance that the Pension Fund is managed and administered appropriately and in line with legislative requirements. Following local elections in May 2017 and the significant change in the composition of the Committee and Board, training of Members and Officers will be key in ensuring the continued adequacy of these arrangements. The Fund was able to demonstrate that its' governance arrangements were appropriate during the successful opt up to professional status under MiFID II requirements.

Statement on the System of Internal Financial Control

The Statement on the System of Internal Financial Control outlines how an effective system of internal financial control is maintained and operated in connection with the resources concerned. The statement is reproduced on page 17.

Statement of Investment Principles

In accordance with Pension Regulations, the Fund has published a Statement of Investment Principles governing its decisions about Fund investments. The statement is reproduced on page 18.

Funding Strategy Statement

As required by the Pension Regulations, the Council's approach to funding its scheme liabilities is set out in the Funding Strategy Statement. The statement is reproduced on page 28. The Funding Strategy Statement has been updated to reflect the results of the 2017 actuarial valuation.

Governance Compliance Statement

Compliance with statutory guidance relating to governance arrangements for the Fund is kept under review. A copy of the current compliance statement relative to the Guidance has been produced and is included on page 13.

Governance Compliance Statement

The Regulations that govern the management of LGPS Funds in Scotland require that a Governance Compliance Statement is published. The Dumfries & Galloway Council Pension Fund has published a Governance Policy (copy available on the Dumfries & Galloway Council's website). Provided below is the Governance Compliance Statement that sets out the extent to which governance arrangements comply with best practice.

Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council.	Yes	Dumfries & Galloway Council as scheme manager (administering authority) has delegated all pension scheme matters to the Pensions Sub Committee. The Pensions Sub Committee currently consists of eleven elected members from Dumfries & Galloway Council with full voting rights.
	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.	Yes	The introduction of the Pensions Board (the Board) has formalised the involvement of the employers and trade unions representing the membership. The Pension Board has been created to assist the scheme manager and consists of four employer representatives and four Trade Union representatives.
	That where a secondary committee of panel has been established, the structure ensures effective communication across both levels.	N/A	No secondary panel established.
	That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	N/A	No secondary panel established.

Representation	a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • Employing authorities (including non-scheme employers, e.g. admitted bodies); • Scheme members (including deferred and pensioner scheme members); • Where appropriate, independent professional observers, and • Expert advisers (on an ad-hoc basis).	Yes	Members of the Pensions Sub Committee are selected from the elected members of Dumfries & Galloway Council. Employing authorities are represented by four representatives on the Pension Board. Scheme members are represented by four Trade Union representatives on the Pension Board. Investment advisers provide advice to the Committee as required. Finance and Pensions Officers also attend in an advisory capacity.
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All Sub Committee members, and Pension Board members, receive the same access to all papers and training, and participate fully in the decision making process.
Selection and Role of Lay Members	a) That committee or panel members are made fully aware of the status, role and function that they are required to perform on either a main or secondary committee.	Partial	Following the May 2017 elections, a formal training programme has been developed for the new Committee. Ongoing training will continue to be provided.
	b) 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.	Yes	The declaration of Member's interests is a standard item on the agenda of the Sub Committee.
Voting	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.	Yes	Members of Dumfries & Galloway Council on the Sub Committee have full voting rights. 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.

Training / Facility Time / Expenses	a) 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.	Yes	Members' training is funded from the Council's Pension Fund.
	b) 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.	Yes	All members are treated equally under the training policy.
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	Current training for Sub Committee members and Pension Board members includes presentations from investment managers, investment advisers and scheme actuary. The programme of training is continually under review. Members receive training each year and this is monitored.
Meetings frequency	a) That an administering authority's main committee or committees meet at least quarterly.	Yes	Joint meetings of the Pensions Sub Committee and Pensions Board are held at least four times a year.
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	N/A	No secondary panel established.
	c) That an administering authority who does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	N/A	Pension Board membership consists of four representatives of employers and four Trade Union representatives for scheme members. As well as the Joint meetings with the Pensions Sub Committee the Board can call its own meetings as and when required.

Access	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.	Yes	All members are treated equally. Committee papers and minutes are publicly available on Dumfries & Galloway Council's website.
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pensions Sub Committee deals with all matters relating to both the administration and investments of the Pension Fund.
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	Pension Fund governance documents are published on the Dumfries & Galloway Council website. There is regular communication with employers and scheme members.

Statement on the System of Internal Financial Control

1. This statement is in respect of the Statement of Accounts of Dumfries & Galloway Council Pension Fund. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

2. The system of internal financial control can provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within an acceptable period of time.

3. The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision and a scheme of delegation and accountability. The system is maintained and developed by officers within the Council and Pension Fund, along with external advisers, and includes:

- comprehensive accounting systems that record income and expenditure for both member and investment activities,
- regular reviews of investment reports that measure investment returns against agreed benchmarks,
- regular reviews of investment manager reports that measure performance against agreed targets.

4. The Council's internal audit section operates in accordance with Public Sector Internal Audit Standards which have been endorsed by CIPFA and other internal audit standard setters. The Chief Internal Auditor has a professional reporting relationship with the Section 95 Officer and oversight of internal audit's work (including review of reports and tracking of audit actions) is performed by the Council's Audit and Risk Management Committee (Audit, Risk and Scrutiny Committee from June 2017). The internal audit section undertakes an annual programme of work based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the control environment. The Chief Internal Auditor has provided an assurance statement to the Council that includes his opinion on the adequacy and effectiveness of the system of internal financial control.

5. My review of the effectiveness of the system of internal financial control is informed by:

- the work of Internal Audit as described above,
- the work of professional accountancy staff within the Pension Fund,
- the External Auditor's reports,
- my direct knowledge of the Pension Fund's financial systems, processes and reporting arrangements.

6. Having reviewed the framework it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Pension Fund's internal financial control systems.

7. The Pension Fund's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Paul Garrett
Head of Finance & Procurement
Section 95 Officer
27 September 2018

Statement of Investment Principles

Background

The Legal Requirements

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 requires Pension Fund administering authorities (scheme managers) to prepare, maintain and publish a Statement of Investment Principles (SIP) governing their decisions on the investment of the Pension Fund. The statement must cover the policy on:

- the types of investment to be held;
- the balance between different types of investments;
- risk, including the ways in which risks are to be measured and managed;
- the expected return on investments;
- the realisation of investments;
- the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- the exercise of the rights (including voting rights) attaching to investments, if it has any such policy; and
- stock lending.

The SIP must also cover the extent to which the authority complies with guidance given by the Scottish Ministers and, to the extent it does not so comply, the reasons for not complying. This guidance requires reference to the 6 principles of investment practice set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pensions Scheme - A Guide to the Application of the Myners Principles".

The Scheme

The Local Government Pension Scheme (LGPS) was set up under statute to provide death, retirement and other benefits for all eligible employees. The LGPS is a defined benefit scheme funded by employee and employer contributions. Up to 1 April 2015 benefits were based on an employee's final salary, after this date benefits are based on career average earnings (CARE). From 1 April 2009 employee contributions are applied in tiers ranging from 5.5% to 12% depending on the member's rate of pensionable pay. Prior to this a flat rate of 6% of pensionable pay applied (certain manual employees contributed at the rate of 5%). Employer contributions are set following an actuarial valuation review of the assets and liabilities of the Scheme every three years. The benefits of the Scheme are defined by statute. The LGPS is managed by several designated administering authorities, of which Dumfries and Galloway Council is one such authority. Each administering authority maintains a Pension Fund (the Fund) and invests monies not required immediately to meet benefits.

Governance

The Pensions Sub Committee

The Pensions Sub Committee (the Sub Committee) is made up of elected representatives of Dumfries and Galloway Council who each have voting rights. It is assisted by the Pension Board which has four employer representatives and four Trade Union representatives. The Sub Committee reports to the Full Council and has full delegated authority for all Pension Fund decisions. The Sub Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy. The responsibility of the Pension Board is to assist the scheme manager in securing compliance with the Regulations and the requirements imposed in relation to the Scheme by the Pensions Regulator. The day to day management of the Fund is carried out by appointed external professional investment managers.

Investment Principles

The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.

Framework
The SIP forms part of a framework that includes:

- the Statutory Regulations;
- the Pensions Sub Committee;
- the Pension Board;
- the Fund's advisers;
- the Funding Strategy Statement.

Advice
The Sub Committee receives and considers advice from officers of the Council and as necessary from its appointed external investment consultant, (including specific investment advice), the actuary to the Fund, and its investment managers. Following a formal review exercise of service provision Hymans Robertson LLP were appointed as external investment consultants in 2005. Hymans Robertson LLP were reappointed as actuary to the Fund in 2006. The Sub Committee monitors the level of fees that are paid to the advisers in order to ensure that the advice is at an appropriate level and represents value for money.

Responsibilities

The Pensions Sub Committee is responsible for:

- overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- monitoring compliance with this Statement of Investment Principles and reviewing its contents;
- appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment consultant;
- reviewing investment manager performance, against established benchmarks on a regular basis;
- reviewing the managers' expertise and the quality and sustainability of their investment process, their procedures, risk management, internal controls, transaction costs and key personnel;
- reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights;
- reviewing and monitoring Fund performance through acceptance of Triennial Valuation Reports, Annual Reports & Accounts and Annual Administration Performance Reports.

The Pension Board is responsible for assisting each scheme manager in relation to:

- securing compliance with the Regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected to it;
- securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator;
- such matters as the scheme regulations may specify.

The Pensions Sub Committee is advised by Officers of Dumfries and Galloway Council, who are responsible for:

- providing support for, and ensuring the implementation of, the Sub Committee decisions;
- ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Sub Committee;
- management of surplus cash, pending transmission to the investment manager in accordance with the Dumfries and Galloway Council's Treasury Management Code of Practice;
- arranging the voting of shares in accordance with agreed policy;
- ensuring proper resources are available for Dumfries and Galloway Council's responsibilities to be met.

The Investment Managers are responsible for:

- the investment of Pension Fund assets in compliance with the legislation and the detailed investment management agreement;
- tactical asset allocation around the strategic benchmark set by the Sub Committee;
- stock selection within asset classes;
- preparation of quarterly reporting including a review of investment performance, voting activity and transaction costs;
- attending meetings of the Sub Committee as required.

The Custodian is responsible for:

- provision of monthly accounting data summarising details of all investment transactions during the period;
- providing investment transaction details in a timely manner to the independent performance measurers;
- safe custody and settlement of all investment transactions, collection of income, withholding tax reclaims and the administration of corporate actions.

The Actuary is responsible for:

- undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required;
- advising on the rate of employer contributions required to maintain appropriate funding levels;
- providing advice on the admission of new bodies to the scheme, including external employers following externalisation of services.

The Investment Consultant is responsible for:

- advising on the asset and liability matching position of the Fund;
- advising on the appropriateness of the investment strategy of the Fund and its implementation on an annual basis;
- advising on the selection of investment managers, and the custodian;
- providing investment information, investment advice and continuing education to the Sub Committee and the Council Officers;
- quarterly and annual Independent monitoring of the investment managers, their activities, and associated costs, their performance, compliance with the mandate, adherence to their stated investment style and personnel and organisational matters.

The Investment Consultant is authorised by and registered with the FCA for the provision of investment advice.

Fund Objectives

Principal Objectives

The principal objective of the Fund is to ensure that scheme members and their dependants receive benefits as they become payable.

Funding Objectives

The funding objectives are set out in the Funding Strategy Statement. The main funding objectives are:

- to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment (i.e. ensure the long-term solvency of the Fund);
- to enable employer contribution rates to be kept as constant as possible and at reasonable cost to the Scheduled Bodies, Admitted Bodies and to the taxpayers;
- to manage employers' liabilities effectively; and
- to maximise investment returns within reasonable risk parameters.

Investment Policy

Investment Objectives

The investment objective of the Fund is to maintain an appropriate funding level and to target growth in the value of the assets sufficient to facilitate low and stable employer contribution rates in the long term. To this end, the assets of the Fund are not structured in a way that closely matches the liabilities of the Fund, but they are weighted towards equity type investments, which historically have provided a greater return over fixed interest type assets.

Power to Invest

The powers and duties of the Authority to invest Fund monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. The Council is required to invest any monies not immediately required for the payment of benefits and pensions. The Council is also required to take account of the need for diversification, and to take account of advice from persons properly qualified by their ability and practical experience of financial matters to provide that advice.

Types of Investment

The Sub Committee has approved the following types of investment in order to achieve investment objectives:

- equities (including Managed Funds, Unit Trusts, Investment Trusts, Open Ended Investment Companies and Insurance Contracts);
- bonds, including index-linked and fixed interest bonds issued by both Governments and Corporations;
- property;
- currency;
- absolute return;
- cash.

Other asset classes may be added by the Sub Committee after consideration of suitable advice on the merits of the asset class.

Investments may be in UK or overseas markets and made either directly or through pooled funds.

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

Strategic Asset Allocation

The strategic asset allocation is set by reference to the liability profile of the Fund. Asset liability models are used by external advisers to determine the allocation of assets and are intended to achieve the objective of maximising investment returns within reasonable risk parameters. The current allocation, agreed in November 2012, is 62% equity, 15% fixed interest, 10% property and 13% alternatives.

Investment Managers

The management structure has been constructed to balance the risks, rewards and costs of investing the schemes assets. In particular, because of the size of the Fund, it is appropriate to have diversification between asset managers, following different approaches. The current manager structure was agreed in February 2017 and is shown in the table below.

Manager	Mandate	% of Fund	Benchmark	Target
Baillie Gifford	Absolute Return	10%	Absolute Return	Outperform
Franklin Templeton Institutional	Active Global Equities	15%	MSCI All Country World	Maximise return
Lothbury	Property	3 1/3%	IPD All Balanced Funds	Outperform
Legal & General Investment Managers	Passive UK Equities	32%	FTSE All Share	Match
Legal & General Investment Managers	Passive Global Equities	15%	MSCI World Index (NDR)	Match
Legal & General Investment Managers	Passive Bonds	15%	Bespoke	Match
Legal & General Investment Managers	Passive Emerging Debt	3%	JPM Govt Bond Index – Global Diversified Index	Match
RREEF/ BlackRock	Property	3 1/3%	IPD All Balanced Funds	+ 0.5%
Columbia Threadneedle Property	Property	3 1/3%	IPD All Balanced Funds	Outperform

During July and August 2017 assets under the management of Alliance Bernstein, an active global equity mandate, were transferred to Legal & General Investment Managers as a passive global equity mandate, in accordance with the decision taken by the Sub Committee on 23 February 2017.

Fees paid to managers tend to be based on the market value of the funds under their control. None of the current managers have a performance related element within their fee structure.

Diversification of Investments
The Fund has diversified amongst asset classes and within asset classes.

The outperformance targets normally dictate the amount of investment risk the investment managers will take. In setting investment manager performance targets the Sub Committee has carefully considered risk. Fixed interest assets are in place to provide the “matching” part of the portfolio and therefore risk should be low.

With regard to the equity and property portfolios, these are where the additional return and growth of the asset values is expected to occur. All equity assets are currently held in pooled vehicles. Active managers have been set the target of outperforming their respective targets by specified amounts.

The Fund has a specific allocation to property. This is in pooled property funds, as it is considered that direct exposure to property is not suitable for a Fund of our size. The pooled approach allows the Fund to be exposed to all the property sectors, regions and lot sizes of individual stocks that the Fund could not access in a direct portfolio. Property exposure itself also adds risk and return diversification benefits as the sector has a low correlation to equities.

The Fund does not currently invest in Private Equity investment or Infrastructure Funds, as it is believed that these are very specialist fields and a full review of the market and its providers would need to be undertaken before deciding to commit funds. However these are asset classes that may be reviewed at a future date.

Performance Targets
Performance targets are set on a rolling three-year basis in relation to the benchmark and weighted indices above. The investment manager’s performance against the benchmark targets are measured at quarterly and annual intervals by The WM Company which provides independent performance statistics and by the Investment Consultant who interprets those statistics and comments on the level of risk and activities taken by the managers to achieve the performance.

Expected Return on Investments
The Fund expects its investments to produce a return over the long term in line with the investment return assumed in the triennial actuarial valuation.

Realisation of Investments
The majority of the Fund's assets are in equities and bonds which can be realised within a matter of days. Investments in other asset classes, property in particular, may take longer to realise, perhaps a period of months. Including income from investments, the Fund currently expects positive cash flow for some time into the future and as such there is no perceived requirement to realise investments prematurely to meet pensions and other benefits.

Stock Lending
The Sub Committee permits the use of stock lending within the limits prescribed in regulation. Although the Sub Committee has no direct control over stock lending within pooled vehicles it is comfortable that the nature and extent of the activity are appropriate to the Fund.

Custodian
State Street Bank and Trust Company act as custodian for the Fund's assets.

Reporting
The investment manager's investment decisions and actions are reported quarterly to the Sub Committee. The Sub Committee publishes this Statement of Investment Principles and the minutes of their meetings, which include the results of their monitoring of the advisers and the investment managers.

Review
The investment strategy is reviewed periodically with a major review taking place every three years following the actuarial valuation of the Fund. Following the completion of the actuarial valuation as at 31 March 2017 a formal review of the strategic asset allocation is being undertaken, due for completion in the fourth quarter of 2018.

Risk
The Fund is exposed to a number of risks which pose a threat to it meeting its objectives. The principal risks, and the way in which they are managed, are:

- financial mismatch. The risk that the Fund assets fail to grow in line with the cost of meeting its liabilities. The Sub Committee measures and manages financial mismatch in several ways. It has set a strategic asset allocation benchmark for the Fund and assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns. It also assesses risk relative to liabilities by monitoring benchmark returns relative to liabilities. The Sub Committee keeps under review demographic assumptions which could impact on the cost of benefits. These assumptions are considered formally in the triennial valuation.
- systemic risk. The risk of an interlinked and simultaneous failure of several asset classes and/or investment managers. The Sub Committee seeks to manage systemic risk through its diversified portfolio and the appointment of several investment managers.
- liquidity risk. The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. This is controlled by the regular estimating of cash flow to ensure that sufficient cash balances are available. By holding the majority of its assets in liquid assets such as equities and bonds any unexpected cash flow requirements can be met by the realisation of assets.
- custody risk. The risk of losing rights to Fund assets when they are held in custody or being traded. The Sub Committee manages custody risk by the monitoring of custodian activities.
- transition risk. The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions the Sub Committee will take professional advice and consider the appointment of specialist transition managers.

Social, Environmental and Ethical Policy
The Fund has considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the principal objectives described earlier in this statement, the Sub Committee take the view that non-financial factors should not drive the investment process at the cost

of financial return on the Fund. The Fund does not actively disinvest in companies for ethical, social or environmental reasons as this may impact on Fund returns and would not accord with the principal objectives. The Sub Committee also believe that it does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, it holds a policy of non-interference with the day-to-day decision making of the investment managers.

The Fund encourages the investment managers to consider the financial impact of good and poor socially responsible activities of companies as part of their due diligence. If their assessment of companies for investment indicates that a corporate governance, social, environmental or ethical factor could have an impact on that company's financial performance (positively or negatively) then the Sub Committee believe the investment managers should take account of it.

The Fund managers have their own policy on corporate governance and Socially Responsible Investment and the Fund has delegated responsibility to the managers to consider Socially Responsible Investment Issues in accordance with their policies.

In general managers do not intervene in companies activities except where these are in unusual circumstances. The Sub Committee accepts that it is not in the economic interest of the Fund for its managers to intervene more generally.

Voting Rights

The Fund has delegated its voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. It is expected that the investment managers generally vote in support of management actively employing "Cadbury" and "Greenbury" principles and any modifying best practice, unless otherwise directed by the Sub Committee.

The fund managers are required to report voting actions on an exceptions basis (i.e. excluding routine items) to the Sub Committee.

Compliance

It is a requirement of the SIP to refer to the 6 principles of investment practise set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pensions Scheme. A Guide to the Application of the Myners Principles" and to state the Fund's level of compliance with these principles. The Fund complies as follows:

Principle	Comment	Compliant
Principle 1 – Effective decision making Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation; • Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	• The Pensions Sub Committee (the Sub Committee) is the decision making body for the Dumfries & Galloway Council Pension Fund. • The Sub Committee has appointed an external investment consultant to provide specific investment advice. • Advice and support for the Sub Committee is provided by officers of Dumfries & Galloway Council. • The Sub Committee focuses on setting the strategy for the Fund. • The Sub Committee receive training during meetings and at specific training sessions.	Yes

Principle 2 – Clear Objectives • Overall investment objectives should be set out for the Fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.	• The Statement of Investment Principles and the Funding Strategy Statement define the Fund's primary funding objective. • The Funding Objectives recognise the need for employer contribution rates to be kept as constant as possible and at reasonable cost to the employers and to the taxpayers. • The strategy and structure are monitored continuously and reviewed regularly using asset liability and risk modelling techniques. • Reviews of investment strategy focus on the relative split between equities, bonds and asset classes. The Fund has a specific benchmark with individual targets for each investment mandate.	Yes
Principle 3 – Risk and liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for council tax payers, the strength of the covenant of participating authorities, the risk of their default, and longevity risk.	• The Fund takes advice from its actuary regarding the nature of its liabilities. • Asset liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises take account of covenant strength and longevity risk. • Investment strategy is reviewed periodically and takes account of employers ability to pay. • The Section 95 Officer is responsible for ensuring appropriate controls are in place for the Fund. Controls are subject to internal and external audit and any material issues reported to the Sub Committee.	Yes

Principle 4 – Performance assessment • Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.	• Fund and Manager performance is measured by an independent performance monitoring company. • Fund and Manager performance reports for quarter, annual and longer term periods are considered by the Sub Committee on a regular basis. • External advisers are subject to periodic market testing. • Long term Fund performance is attributable to investment manager appointments made by the Sub Committee. The triennial actuarial valuation allows the Sub Committee to consider its funding position relative to other Local Government Pension Schemes.	Yes
Principle 5 – Responsible ownership Administering authorities should: • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of the authority's policy on responsible ownership in the Statement of Investment Principles. • Report periodically to members on the discharge of such responsibilities.	• The Fund's investment managers have adopted the Institutional Shareholders' Committee Statement of Principles. • The Fund's policy on responsible ownership is included in the Statement of Investment Principles. • Voting on underlying shareholdings is delegated to the investment managers	Yes

Principle 6 – Transparency and reporting Administering authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; • Provide regular communication to members in the form they consider most appropriate.	• Trade Union and employers representatives on the Pension Board have observer status on the Sub Committee and participate in discussion on a non voting basis. • The Fund's policy statements and other documentation are available on the Dumfries & Galloway Council website. • The Fund produces regular newsletters for members as well as an annual benefit statement. • A new regulatory requirement to prepare and publish a separate Fund Annual Report came into effect from financial year 2010/11.	Yes

Funding Strategy Statement

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Dumfries and Galloway Council Pension Fund ("the Fund"), which is administered by Dumfries and Galloway Council, ("the Administering Authority"). It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2018.

1.2 What is the Dumfries and Galloway Council Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

There are also regulatory requirements for an FSS, as given in Appendix A.

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

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

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

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

1.6 How do I find my way around this document?
In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

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

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

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

A. the regulatory background, including how and when the FSS is reviewed,
B. who is responsible for what,
C. what issues the Fund needs to monitor, and how it manages its risks,
D. some more details about the actuarial calculations required,
E. the assumptions which the Fund actuary currently makes about the future,
F. a glossary explaining the technical terms occasionally used here.

2 Basic Funding issues
(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?
In essence this is a three-step process:
- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

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

2.2 What is each employer's contribution rate?

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

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

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

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

2.3 What different types of employer participate in the Fund?

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

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

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

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

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

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

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

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa)

For some employers it may be agreed to pool contributions, see 3.4.
Any costs of non ill-health early retirements must be paid by the employer, see 3.6.
Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?
An employer's "funding level" is defined as the ratio of:
- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

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

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

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?
The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:
- Higher pension fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which colleges and universities pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:
- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

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

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

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

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

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

3 Calculating contributions for individual Employers

3.1 General comments

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

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

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

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

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

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

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

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

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies**		**Transferee Admission Bodies**
Sub-type	**Council Pool**	**Colleges**	**Police, Fire**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No Note (b)	No Note (b)	No	No	No
Maximum time horizon – Note (c)	15 years	15 years	15 years	15 years	Shorter of 15 years and future working lifetime	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at Primary rate	Contributions kept at Primary rate	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	66%	70%	66%	70%	75%	66%
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	Up to 3 years at the discretion of the Fund depending on remaining contract period
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	n/a	Note (g)		Notes (g) & (h)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (i).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (i).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

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

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

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

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

Note (b) (Stabilisation)

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

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

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

On the basis of extensive asset liability modelling carried out for the 2017 valuation exercise (see Section 4), there will be no increase in contributions for the Dumfries and Galloway Council Pool over the three years from 1 April 2018. After this time, the stabilisation parameters in the table below will take effect.

Type of employer	Council Pool
Max contribution increase per year	+0.5% of pay
Max contribution decrease per year	-1.0% of pay

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

Note (c) (Maximum time horizon)

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

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation is likely to be expressed in monetary terms, rather than as a percentage of payroll. The Administering Authority reserves the right to amend these rates between valuations, for instance where:
- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed to new entrants.

Note (e) (Probability of achieving funding target)

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

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

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:
- the Fund believes the employer poses a greater funding risk than other employers;
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

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

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

Note (g) (New Admission Bodies)

All new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond, as set out in the LGPS Regulations. The security is required to cover some or all of the following:
- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or

- the current deficit.

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

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

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

Note (h) (New Transferee Admission Bodies)

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

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

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

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

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

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

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

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

Note (i) (Admission Bodies Ceasing)

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

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

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

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

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

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

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

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

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

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body.

Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases.

3.4 Pooled contributions
From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

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

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

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

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

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security
The Administering Authority may permit greater flexibility to the employer’s contributions if the employer provides added security to the satisfaction of the Administering Authority.

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

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

The degree of flexibility given may take into account factors such as:
- the extent of the employer’s deficit;
- the amount and quality of the security offered;
- the employer’s financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

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

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 5 years
Community Admission Bodies	- up to 3 years
Transferee Admission Bodies	- payable immediately.

3.7 Ill health early retirement costs
In the event of a member’s early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

3.8 External Ill health insurance

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

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

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

3.9 Employers with no remaining active members

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

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

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

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

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

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

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

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

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

4.5 Does the Fund monitor its overall funding position?

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

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

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

5.2 Solvency

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

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

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

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

5.3 Long Term Cost Efficiency

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

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

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

Relative considerations include:

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

Absolute considerations include:

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

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The purpose of the FSS is:

- "to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities."

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers on 21 February 2018 for comment;
b) Comments were requested within 26 days;
c) Following the end of the consultation period the FSS was updated where required and then approved on 24 May 2018

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website www.dumgal.gov.uk
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

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

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at www.dumgal.gov.uk

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

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

- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation monitoring of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance; reviewed at least every three years.

Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	**Summary of Control Mechanisms**
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.

Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	**Summary of Control Mechanisms**
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2017 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any SPPA/Scottish Ministers intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	**Summary of Control Mechanisms**
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.

Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (g) and (i) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The Calculation of Employer contributions

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

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

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

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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

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

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus
b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

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

D2 How is the Primary contribution rate calculated?

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

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

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details), and
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

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

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

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

D3 How is the Secondary contribution rate calculated?

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

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

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

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

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

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

D4 What affects a given employer's valuation results?

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

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

D5 How is each employer's asset share calculated?

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

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

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

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

- the actual timing of regular employer contributions within any financial year;
- the actual timing of transfers in or out of the Fund; and
- the actual timing of changes in the benefit payments made due to retirements and deaths.

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

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

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?
These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

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

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

E2 What basis is used by the Fund?
The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

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

E3 What assumptions are made in the ongoing basis?
a) Investment return / discount rate
The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

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

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

b) Salary growth

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

1. 2% p.a. until 31 March 2020, followed by
2. the retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.2%. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

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

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

d) Life expectancy

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

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

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

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

e) General

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

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

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

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

Independent Auditors' Report

Independent auditor's report to the members of the Dumfries and Galloway Council as administering authority for the Dumfries and Galloway Council Pension Fund and the Accounts Commission.

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Dumfries and Galloway Council Pension Fund (the fund) for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement as at 31 March 2018 and Accounting Policies and Notes to Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the financial transactions of the fund during the year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Responsibilities of the Head of Finance and Procurement and Pension Sub-Committee for the financial statements

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

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

The Pensions Sub-Committee is responsible for overseeing the review the Annual Report and Accounts of the Fund.

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual report

The Head of Finance and Procurement is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Joanne Brown, (for and on behalf of Grant Thornton UK LLP)

110 Queen Street

Glasgow

G1 3BX

27 September 2018

Fund Account

2016/17 £000		2017/18 £000	Note
	Dealings with members, employers and others directly involved in the scheme		
(29,257)	Contributions	(28,649)	7
(276)	Transfers in from other pension funds	(1,964)	8
(29,533)		**(30,613)**	
32,123	Benefits	29,837	9
1,388	Payments to and on account of leavers	1,971	10
33,511		**31,808**	
3,978	**Net (additions) / withdrawals from dealing with Members**	**1,195**	
2,968	Management expenses	3,219	11
6,946	**Net (additions) / withdrawals including fund management expenses**	**4,414**	
	Return on investments		
(10,314)	Investment income	(6,867)	12
(141,262)	Profit and losses on disposal of investments and changes in the market value of investments	(17,126)	14(a)
(151,576)	**Net return on investments**	**(23,993)**	
(144,630)	**Net (increase)/ decrease in the net assets available for benefits during the year**	**(19,579)**	
(692,148)	**Opening net assets of the scheme**	**(836,778)**	
(836,778)	**Closing net assets of the scheme**	**(856,357)**	

Net Assets Statement for the year ended 31 March 2018

2016/17 £000		2017/18 £000	Note
836,350	Investment assets	855,788	14
344	Cash deposits	185	14
836,694	**Total investment assets**	855,973	
(400)	Investment liabilities	0	14
836,294	**Total net investments**	855,973	
2,469	Current assets	1,354	20
(1,985)	Current liabilities	(970)	21
836,778	**Net assets of the fund available to fund benefits at the period end**	**856,357**	

The fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial position of the promised retirement benefits is disclosed at Note 19.

The Audited accounts were issued on 27 September 2018.

Paul Garrett
Head of Finance & Procurement

Notes to the Accounts

1. Description of the Fund
The Dumfries & Galloway Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Dumfries & Galloway Council.

The following description of the Pension Fund is a summary.

a) General
The LGPS scheme is governed by the Public Service Pensions Act 2013. The fund is administered by the Council in accordance with the following secondary legislation:
- The Local Government Pension Scheme (Scotland) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010
- The Local Government Pension Scheme (Governance)(Scotland) Regulations 2015

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

b) Membership
Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include:

- Scheduled Bodies – which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund. There are currently 5 in the Fund:
    - Dumfries and Galloway College,
    - Visit Scotland,
    - Scottish Police Service Authority,
    - Scottish Police Authority,
    - Scottish Fire & Rescue Service.

- Admitted Bodies – which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. There are currently 7 in the Fund:
    - The Crichton Trust,
    - Dumfries and Galloway Housing Partnership,
    - Community Integrated Care,
    - Renewi plc, (formerly Shanks Group)
    - Amey plc,
    - Lovell plc,
    - Scottish Rural University and Colleges (Barony College).

Membership Details as at 31 March 2018

31 March 2017			31 March 2018	
		Number of employers with active members		
		Number of active members in scheme:		
5,246		Dumfries and Galloway Council	5,480	
578		Other employers	567	
	5,824	**Total**		**6,047**
		Number of pensioners / dependants:		
2,836		Dumfries and Galloway Council	3,043	
1,612		Other employers	1,617	
	4,448	**Total**		**4,660**
		Number of deferred pensioners:		
3,557		Dumfries and Galloway Council	3,841	
720		Other employers	701	
	4,277	**Total**		**4,542**
	14,549	**Scheme total**		**15,249**

	Number of Contributors	Number of Pensioners	Number of Deferred Pensioners
Dumfries and Galloway Council	5,480	3,043	3,841
Dumfries and Galloway College	210	93	169
Visit Scotland	5	18	8
Scottish Police Service Authority	18	6	3
Scottish Police Authority	126	48	51
Scottish Fire & Rescue Service	20	13	9
The Crichton Trust	37	15	42
Dumfries and Galloway Housing Partnership	57	62	27
Community Integrated Care	7	85	30
Renewi plc	2	14	6
Amey plc	28	6	10
Lovell plc	25	9	4
Scottish Rural University and Colleges (Barony)	32	32	57
Former Dumfries & Galloway Arts Association	0	2	10
Former Solway Heritage	0	5	16
Former Annandale & Eskdale Sports & Leisure Trust	0	3	12
Former Connaught plc	0	9	36
Former Dumfries & Galloway Regional Council	0	866	153
Former Annandale & Eskdale District Council	0	80	11
Former Nithsdale District Council	0	133	24
Former Stewartry District Council	0	42	9
Former Wigtown District Council	0	69	9
Crichton Foundation	0	0	3
Former Solway River Purification Board	0	2	1
Former Dumfries Town Centre Management	0	5	1
	6,047	**4,660**	**4,542**

c) Funding
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Pension Fund in accordance with the LGPS (Scotland) Regulations 2014 and range from 5.5% to 12% of pensionable pay for the financial year ending 31 March 2018.

Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2014 set these employers' contribution rates which range from 18.0% to 26.3% of pensionable pay in 2017/18. Additional monetary payments towards deficit recovery were also set.

Employers' contribution set in the March 2017 valuation come into effect from 1 April 2018.

d) Benefits
Prior to 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as summarised below:

	Service before 1 April 2009	**Service after 31 March 2009 until 31 March 2015**
Pension	Each year worked is worth 1/80th x final pensionable salary.	Each year worked is worth 1/60th x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

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2. Basis of Preparation
The Statement of Accounts summarise the Pension Fund's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Pension Fund is required to prepare an Annual Report by the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the Local Government Pension Scheme Fund Accounts 2016/17 - example accounts and disclosure checklist published by the Chartered Institute of Public Finance Accountants (CIPFA).

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

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3. Summary of Significant Accounting Policies

a) Accruals of Income & Expenditure

In accordance with the Code, the Statement of Accounts has 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.

b) Contributions

Normal contributions, both from the members and from the employers, are accounted for on an accrual basis at the percentage rate recommended by the Pension Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain costs are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as current financial assets. Amounts not due until future years are classed as long-term financial assets.

c) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In

d) Investment Income

i) Interest income

Interest is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

e) Benefits

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

f) 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.

g) Management Expenses
Administration Expenses
All administration expenses are accounted for on an accruals basis. Central Support Costs from Dumfries & Galloway Council have been recharged to the Fund on the basis of time spent by staff on the service.

Investment Management Expenses
All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Oversight and Governance Costs
All oversight and governance costs are accounted for on an accruals basis.

h) Financial Assets
Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments shown in the net assets statement are determined as follows:

- Market-quoted investments – the value of an investment for which there is a readily available market price is determined by the bid price on the final day of the accounting period.
- Fixed interest securities – are recorded at net market value based on their current yields.
- Unquoted investments – directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Pooled investment vehicles - these are valued at closing bid price if both bid and offer prices are published; or if single priced, at closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Pension Fund, net of applicable withholding tax.

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

j) Derivatives
The Fund may use derivative financial instruments to manage its exposure to specific risks arising from its investment activities, although it did not hold any as at 31 March 2018. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued 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 that are due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of the over the counter contract options is based on quotations

from an independent broker. Where this is not available, the value is provided by the investment manager using generally accepted option-pricing models with independent market data.
The future value of forward currency contracts is based on market forward exchange rates at the year- end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) Cash and Cash Equivalents
Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial Liabilities
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement 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.

m) Actuarial Present Value of Promised Retirement Benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of note to the net asset statement (Note 19).

n) Additional Voluntary Contributions
Dumfries & Galloway Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Pension Fund has appointed Standard Life and Scottish Equitable as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 22).

o) Changes in Accounting Policies and Prior Period Adjustments
Changes in accounting policies are only made when required by proper accounting practice or the change provides more reliable or relevant information about the effects of transactions, other events and conditions on the Pension Fund's financial position or financial performance. Where a change is made it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior periods as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

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4. Critical Judgements in Applying Accounting Policies
Pension Fund Liability
The pension fund liability is calculated every three years by the appointed actuary (currently Hymans Robertson), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial Present Value of Promised Retirement Benefits	Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured: - A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £78m; - A 0.3% increase in the Retail Price Index assumption for inflation impacting on both salaries and benefits would increase the value of the liabilities by £40m, and - A 0.25% increase in the longevity long term rate of improvement would increase the deficit by £9m. Source: 2017 Valuation.
Pooled Property Funds (note 14)	Valuation techniques are used to determine the carrying amount of pooled property funds. Where possible these techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The total pooled property investments in the financial statements are £82.8m. There is a risk that this investment may be under or overstated in the accounts.

6. Events After the Reporting Date
Events after the Net Asset Statement date are those events which occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. The Statement of Accounts is adjusted for events which provide evidence of conditions that existed at the end of the reporting period. The Statement of Accounts is not adjusted for events which are indicative of conditions which arose after the end of the reporting period. However where such events would have a material effect, a disclosure is made in the Notes to the Accounts of the nature of the event and the estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

The audited Statement of Accounts were issued by the Head of Finance and Procurement on 27 September 2018. Events taking place after this date are not reflected in the financial statements or notes. There have been no material events since the date of the Net Assets Statement which have required the figures in the financial statements and notes to be adjusted.

7. Contributions Receivable

By category

2016/17 £000		2017/18 £000
5,782	**Employees' contributions**	**5,850**
	Employers' contributions	
18,639	Employers normal contributions	18,825
2,146	Employers deficit recovery contributions	2,262
2,690	Employers augmentation contributions	1,712
23,475		**22,799**
29,257	**Total**	**28,649**

By authority

2016/17 £000		2017/18 £000
25,619	Dumfries and Galloway Council	24,957
2,117	Scheduled Bodies	2,272
1,521	Admitted Bodies	1,420
29,257	**Total**	**28,649**

The employers augmentation contributions relate to Strain on the Fund payments made by employers to cover costs of early retirements. From 2015/16 the deficit adjustment percentage payment included in employer contribution rates was replaced by a monetary payment for all employers affected.

8. Transfers In From Other Pension Funds

The total transfers received during the year are as follows:

2016/17 £000		2017/18 £000
276	Individual transfers	**1,964**

9. Benefits Payable

By Category

2016/17 £000		2017/18 £000
23,336	Pensions	23,943
7,824	Commutation and lump sum retirement benefits	5,260
963	Lump sum death benefits	634
32,123	**Total**	**29,837**

By authority

2016/17 £000		2017/18 £000
28,137	Dumfries and Galloway Council	25,425
2,325	Scheduled Bodies	2,590
1,661	Admitted Bodies	1,822
32,123	**Total**	**29,837**

10. Payments To And On Account of Leavers

2016/17 £000		2017/18 £000
41	Refunds to members leaving service	87
4	Payment for members joining state scheme	5
1,343	Individual transfers	1,879
1,388	**Total**	**1,971**

At the year-end there are no potential liabilities (no potential liabilities in 2016/17) in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

11. Management Expenses

2016/17 £000		2017/18 £000
	Administrative costs	
155	• Central administration charge	239
110	• System costs	112
19	• Other expenses	13
284		**364**
	Investment management expenses	
500	• External management fees - invoiced	288
2,063	• External management fees – deducted from capital	2,375
13	• Custody fees	6
2,576		**2,669**
	Oversight and governance costs	
42	• Central administration charge	45
6	• Actuarial fees	58
17	• Investment consultancy fees	34
13	• Performance measurement	14
24	• External Audit fees	24
6	• Other expenses	11
108		**186**
2,968	**Total**	**3,219**

12. Investment Income

2016/17 £000		2017/18 £000
1,299	Fixed interest securities	226
3,368	Equity dividends	779
3,928	Pooled property investments	3,857
1,701	Pooled investments – unit trusts and other managed funds	2,001
5	Interest on cash deposits	4
13	Other (including cost of foreign exchange)	0
10,314	**Total**	**6,867**

13. External Auditors Remuneration

In 2017/18 the agreed audit fee for the year was £24,360. There were no other fees during 2017/18 paid to Grant Thornton, the Pension Fund's auditor.

14. Investments

2016/17 £000		2017/18 £000
	Investment assets	
67,049	Fixed interest securities	0
55,136	Equities	0
560,897	Pooled investments	694,380
77,508	Pooled property investments	82,789
73,423	Diversified growth	76,961
344	Cash deposits	185
2,337	Investment income due	1,658
0	Amounts receivable for sales	0
836,694	**Total investment assets**	**855,973**
	Investment liabilities	
(400)	Amounts payable for purchases	0
(400)	**Total investment liabilities**	**0**
836,294	**Net investment assets**	**855,973**

14(a). Reconciliation of Movements in Investments

	Market value at 1 April 2017 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market value at 31 March 2018 £000
Fixed interest securities	67,049	26,953	(94,148)	146	0
Equities	55,136	1,070	(56,876)	670	0
Pooled investments	560,897	884,656	(759,594)	8,421	694,380
Pooled property investments	77,508	2,805	(1,836)	4,312	82,789
Diversified growth	73,423	67	0	3,471	76,961
	834,013	**915,551**	**(912,454)**	**17,020**	**854,130**
Other investment balances:					
Cash deposits	**344**				**185**
Amounts receivable for sale of investments	**0**				**0**
Investment income due	**2,337**				**1,658**
Amounts payable for purchase of investments	**(400)**				**0**
Net investment assets	**836,294**				**855,973**

	Market value at 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2017
	£000	**£000**	**£000**	**£000**	**£000**
Fixed interest securities	59,344	155	0	7,550	67,049
Equities	46,033	3,676	(7,438)	12,865	55,136
Pooled investments	440,293	392,959	(385,986)	113,631	560,897
Pooled property investments	75,172	2,702	(681)	315	77,508
Diversified growth	66,466	56	0	6,901	73,423
	687,308	**399,548**	**(394,105)**	**141,262**	**834,013**
Other investment balances:					
Cash deposits	**225**				**344**
Amounts receivable for sale of investments	**0**				**0**
Investment income due	**1,801**				**2,337**
Amounts payable for purchase of investments	**0**				**(400)**
Net investment assets	**689,334**				**836,294**

14(b). Analysis Of Investments

2016/17 £000		2017/18 £000
	Fixed interest securities	
	UK	
67,049	Public sector quoted	0
67,049		**0**
	Equities	
	UK	
44,976	Quoted	0
	Overseas	
10,160	Quoted	0
55,136		**0**
	Pooled funds – additional analysis	
	UK	
43,938	Fixed income unit trusts	112,042
182,916	Unit trusts	241,639
	Overseas	
17,363	Fixed income	17,478
316,680	Unit trusts	323,221
560,897		**694,380**
77,508	Pooled property investments	82,789
73,423	Diversified growth	76,961
150,931		**159,750**
344	Cash deposits	**185**
2,337	Investment income due	**1,658**
0	Amounts receivable for sales	**0**
836,694	**Total investment assets**	**855,973**
	Investment liabilities	
(400)	Amounts payable for purchases	0
(400)	**Total investment liabilities**	**0**
836,294	**Net investment assets**	**855,973**

14(c). Investments Analysed By Fund Manager

Market Value 31 March 2017 £000	%		Market Value 31 March 2018 £000	%
366,974	43.9	Legal & General Investment Management	536,897	62.7
158,056	18.9	Alliance Bernstein Institutional Investments	0	0.0
158,933	19.0	Franklin Templeton Institutional	157,809	18.4
73,572	8.8	Baillie Gifford	76,979	9.0
2,389	0.3	RREEF	590	0.1
27,496	3.3	Lothbury Investment Management	30,178	3.5
26,449	3.1	Columbia Threadneedle Asset Management	28,921	3.4
22,425	2.7	BlackRock Investment Management (UK)	24,599	2.9
836,294			**855,973**	

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

Market Value 31 March 2017 £000	%	Security	Market Value 31 March 2018 £000	%
182,916	21.9	Legal & General - UK Equity Index	241,638	28.2
0	0.0	Legal & General - All World Equity Index	165,738	19.4
43,938	5.2	Legal & General - GBP Corp Bond 6A	0	0.0
0	0.0	Legal & General - UK Corporate Bond Index	44,274	5.2
158,056	18.9	Alliance Bernstein - Global Style Blend	0	0.0
158,624	19.0	Franklin Templeton - Templeton Growth Fund – I(acc)	157,483	18.4
73,423	8.8	Baillie Gifford – Diversified Growth Fund	76,961	9.0

14(d). Stock Lending

The Fund has the facility to participate in a stock lending programme managed by State Street Bank, the fund's custodian. Under the current structure the ability to undertake stock lending has been reduced and as at 31 March 2018 no stock was released by the Fund under this arrangement.

15.Fair Value

15(a). Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Pooled investments – closed property funds	Level 3	Valued at year end in accordance with the RICS Valuation Standards	Existing lease terms and rentals. Independent market research	Significant changes in the rental growth, vacancy levels, general changes in the market conditions

Sensitivity of assets valued at level 3

Having considered historical data and current market trends, and consulted with investment managers, the fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-) %	Value at 31 March 2018 £000	Value on increase £000	Value on decrease £000
Closed property funds	18%	405	478	332

15(b). Valuation Of Financial Instruments Carried at Fair Value
The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classed 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
Financial instruments 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
Financial instruments 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 would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. Assurances over the valuation are gained from the independent audit of the value.

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.

		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2018		**Level 1**	**Level 2**	**Level 3**	**Total**
		£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss					
Fixed Interest	Public quoted				0
Equities	UK quoted				0
	Overseas quoted				0
Pooled	Fixed income	112,042			112,042
	Unit trusts	241,639			241,639
	Overseas fixed income		17,478		17,478
	Overseas unit trusts		323,221		323,221
	Property		82,384	405	82,789
	Diversified Growth		76,961		76,961
Total financial assets		**353,681**	**500,044**	**405**	**854,130**
Financial liabilities at fair value through profit and loss		0	0	0	0
Net investment assets		**353,681**	**500,044**	**405**	**854,130**

		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2017		**Level 1**	**Level 2**	**Level 3**	**Total**
		£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss					
Fixed Interest	Public quoted	67,049			67,049
Equities	UK quoted	44,976			44,976
	Overseas quoted	10,160			10,160
Pooled	Fixed income	43,938			43,938
	Unit trusts	182,916			182,916
	Overseas fixed income		17,362		17,362
	Overseas unit trusts		316,680		316,680
	Property		75,305	2,204	77,509
	Diversified Growth		73,423		73,423
Total financial assets		**349,039**	**482,770**	**2,204**	**834,013**
Financial liabilities at fair value through profit and loss		0	0	0	0
Net investment assets		**349,039**	**482,770**	**2,204**	**834,013**

15(c). Reconciliation Of Fair Value Measurements Within Level 3

	Market value at 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2018
	£000	£000	£000	£000	£000
Pooled Property	2,204	0	(1,836)	37	405

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16. Financial Instruments

16(a). Classification Of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analysis the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Asset Statement heading. No financial assets were reclassified during the accounting period.

Fair Value through Profit and Loss	Loans and receivables	Financial liabilities at amortised cost		Fair Value through Profit and Loss	Loans and receivables	Financial liabilities at amortised cost
	31 March 2017				31 March 2018	
£000	£000	£000		£000	£000	£000
			Financial assets			
67,049			Fixed interest securities	0		
55,136			Equities	0		
560,897			Pooled investments	694,380		
77,508			Pooled property investments	82,789		
73,423			Diversified growth fund	76,961		
	2,644		Cash		1,383	
2,337			Other investment balances	1,658		
	169		Debtors		156	
836,350	**2,813**	**0**		**855,788**	**1,539**	**0**
			Financial liabilities			
		(400)	Other investment balances			0
		(1,985)	Creditors			(970)
0	**0**	**(2,385)**		**0**	**0**	**(970)**
836,350	**2,813**	**(2,385)**		**855,788**	**1,539**	**(970)**

16(b). Net Gains and Losses On Financial Instruments

2016/17 £000		2017/18 £000
	Financial assets	
141,262	Fair value through profit and loss	17,126
0	Loans and receivables	0
	Financial liabilities	
0	Fair value through profit and loss	0
0	Loans and receivables	0
141,262	**Total**	**17,126**

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17. Nature and Extent of Risks Arising From Financial Instruments Risk and Risk Management
The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for managing the Fund's risk rests with the Pension Fund Sub Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed to reflect changes in activity and in market conditions.

(a) Market Risk
Market risk is the risk of loss from fluctuations in equity and commodity 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 Consultants undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments although none were held at 31 March 2018. It is also possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk. Again none were held at 31 March 2018.

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 price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk – Sensitivity Analysis
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment manages and advisors, the Council has determined that the following movements are reasonably possible for the 2017/18 reporting period.

Asset Type	Potential Market Movements (+/-) 2016/17 %	2017/18 %
UK bonds	10.0	n/a
Equities	20.7	n/a
UK fixed income unit trusts	8.9	7.2
Overseas fixed income unit trusts	13.4	12.0
UK pooled funds	16.3	14.1
Overseas pooled funds	13.7	9.9
Pooled property investments	12.4	7.0
Diversified growth	10.0	10.0
Cash	0.0	0.0

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows: (the prior year comparator is shown below).

	Value as at 31 March 2018 £000	Potential Market Movement £000	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	1,383	0	1,383	1,383
Investment portfolio assets:				
UK bonds	0			
Equities	0			
UK fixed income unit trusts	112,042	8,067	120,109	103,975
Overseas fixed income unit trusts	17,478	2,097	19,575	15,381
UK pooled funds	241,638	34,071	275,709	207,567
Overseas pooled funds	323,221	31,999	355,220	291,222
Pooled property investments	82,789	5,795	88,584	76,994
Diversified growth	76,961	7,696	84,657	69,265
Investment Income due	1,658	0	1,658	1,658
Amounts receivable for sales	0	0	0	0
Amounts payable for purchases	0	0	0	0
Total	**857,170**	**89,725**	**946,895**	**767,445**

	Value as at 31 March 2017 £000	Potential Market Movement £000	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	2,644	0	2,644	2,644
Investment portfolio assets:				
UK bonds	67,049	6,705	73,754	60,344
Equities	55,136	11,413	66,549	43,723
UK fixed income unit trusts	43,938	3,911	47,849	40,027
Overseas fixed income unit trusts	17,363	2,327	19,690	15,036
UK pooled funds	182,916	29,815	212,731	153,101
Overseas pooled funds	316,680	43,385	360,065	273,295
Pooled property investments	77,508	9,611	87,119	67,897
Diversified growth	73,423	7,342	80,765	66,081
Investment Income due	2,337	0	2,337	2,337
Amounts receivable for sales	0	0	0	0
Amounts payable for purchases	(400)	0	(400)	(400)
Total	**838,594**	**114,509**	**953,103**	**724,085**

Interest Rate Risk
The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its Investment Consultants, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Interest Rate Risk – Sensitivity Analysis
The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

Assets Exposed To Interest Rate Risk	Value as at 31 March 2018	Potential Movement On 1% Change In Interest Rates	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and cash equivalents	185	0	185	185
Cash balances	1,198	0	1,198	1,198
Fixed income securities	112,042	1,120	113,162	110,922
Total	**113,425**	**1,120**	**114,545**	**112,305**

Assets Exposed To Interest Rate Risk	Value as at 31 March 2017	Potential Movement On 1% Change In Interest Rates	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and cash equivalents	344	0	344	344
Cash balances	2,300	0	2,300	2,300
Fixed income securities	67,049	670	67,719	66,379
Total	**69,693**	**670**	**70,363**	**69,023**

A 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest received on those balances. A 1% increase in interest rates will increase the interest income received on those balances by £13,830.

Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

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

The fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the funds risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk – Sensitivity Analysis
Following analysis of historical data in consultation with the Fund's investment managers, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.65% for bonds and equities, as measured by one standard deviation (8.0% in 2016/17). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 6.65% strengthening/weakening of the pound against the various currencies in which the Fund holds bond and equity investments would increase/decrease the value of net assets as follows:

	Value as at 31 March 2018 £000	Potential Market Movement £000	Value on Increase £000	Value on Decrease £000
Overseas quoted securities	0	0	0	0
Overseas fixed income unit trusts	17,478	1,162	18,640	16,316
Overseas unit trusts	323,221	21,494	344,715	301,727
Total change in assets available to pay benefits	**340,699**	**22,656**	**363,355**	**318,043**

	Value as at 31 March 2017 £000	Potential Market Movement £000	Value on Increase £000	Value on Decrease £000
Overseas quoted securities	10,160	813	10,973	9,347
Overseas fixed income unit trusts	17,363	1,389	18,752	15,974
Overseas unit trusts	316,680	25,334	342,014	291,346
Total change in assets available to pay benefits	**344,203**	**27,536**	**371,739**	**316,667**

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

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's criteria. Although none of the investment managers of the Pension Fund have a mandate to specifically manage cash the fixed interest manager will occasionally place funds on deposit. All other investment cash is generally held by the Custodian. The Fund's surplus cash from scheme member's contributions is managed by the Council's treasury management section.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2018, including current account cash, was £1.383 Million (31 March 2017: £2.644 Million). This was held with the following institutions:

Balances as at 31 March 2017 £000	Summary	Rating	Balances as at 31 March 2018 £000
	Bank deposit accounts		
344	State Street Bank	**AA-**	185
	Bank current accounts		
2,300	Bank Of Scotland	**A+**	1,198
2,644	**Total**		**1,383**

c) Liquidity Risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs, and cash to meet investments.

The Council has immediate access to its Pension Fund cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2018, the Fund's only illiquid assets under this definition are some of the Pooled Property Investments, with a value of £0.405 Million, or 0.05% of the total fund assets. (31 March 2017, £2.204 Million, or 0.3% of the total fund assets).

All financial liabilities at 31 March 2018 are due within one year.

d) Refinancing risk
The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its investment strategies.

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18. Funding Arrangements
In line with the Local Government Pension Scheme Regulations 2014, the Pension Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last finalised valuation took place as at 31 March 2017.

The funding policy is set out in the Dumfries and Galloway Council Funding Strategy Statement (FSS), effective from 1 April 2018 (see page 28).

The key elements of the funding policy are:
- 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.

Results from the 31 March 2017 valuation showed that the Pension Fund's assets were valued at £837 Million (2014 valuation: £635 Million). This was sufficient to meet 92% (88% at 31 March 2014 valuation) of the £913 Million liabilities (i.e. the present value of promised retirement benefits) accrued up to that date (2014 valuation: £719 Million). The resulting deficit at the 2017 valuation was £76 Million (2014 valuation: £84 Million).

The long-term employers' contribution rate was estimated on an individual employer basis with the exception of Visit Scotland and The Crichton Trust who were pooled together with Dumfries and Galloway Council. Individual employer deficit payments where required were set with the aim of bringing their funding level back up to 100% over a fifteen year period. This period was reduced for some closed employers where the period was limited to the average working lifetime of employees or the outstanding contract term where applicable. In order to achieve some stability in contributions a stabilisation rule is in operation and the actuary agreed to a limited contribution rate increases or decreases for the next three year period. From the 31 March 2014 valuation the deficit adjustment percentage payment was replaced by a monetary payment in order to reduce the risk of falling payroll numbers. Employers' contribution rates for 2017/18 and for the three years to March 2021 resulting from the 2017 valuation are as shown in the following table:

		Employer contribution rates		
Employer	**Year to March 2018**	**Year to March 2019**	**Year to March 2020**	**Year to March 2021**
Dumfries & Galloway Council Pool	19.5% + £1,776k	21.3% + £164k	21.3% + £169k	21.3% + £175k
Dumfries & Galloway College	22.4% - £25k	21.2%	21.2%	21.2%
Scottish Police Service	19.5% + £13k	21.7%	21.7%	21.7%
Scottish Police Authority	18.6% + £238k	21.7%	21.7%	21.7%
Scottish Fire & Rescue	18.7% + £87k	22.7% + £17k	22.7% + £17k	22.7% + £18k
Dumfries & Galloway Housing Partnership	22.8%	24.5%	24.5%	24.5%
Community Integrated Care	25.6% + £83k	38.9%	38.9%	38.9%
Shanks plc	26.3% + £8k	31.7% + £15k	31.7% + £15k	31.7% + £16k
Amey plc	18.0 %	30.1 %	30.1 %	30.1 %
Lovell plc	21.4%	21.4%	21.4%	21.4%
Scottish Agricultural College (Barony College)	22.3% + £32k	27.9%	27.9%	27.9%

The method of calculating the employers' contribution rate is known as the "projected unit method". This method aims to calculate the amount of money to be invested which, together with income and growth in accumulating assets, would be sufficient to make the required payments throughout the lifetime of existing members, pensioners and their dependants. If there continues to be a steady flow of new entrants to the Fund, and the assumptions made in the valuation are borne out, this method results in a stable, long term contribution rate over time.

For employers who have closed the scheme to new employees the "attained age" method of valuation is used. This method takes into account the fact that they are no longer admitting new entrants when calculating the long term contribution rate, the adjustment for past service remaining the same.

Financial assumptions.
The principal assumptions used in the 2017 valuation were as follows:

	31 March 2017	
Financial Assumptions	**% per annum Nominal**	**% per annum Real**
Discount rate	3.5	1.1
Pay increases	3.2	0.8
Price inflation / pension increases	2.4	0.0

Demographic assumptions.
The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were based on the fund's VitaCurves. These base tables are then projected using the CMI 2016 Model, allowing for a long term rate of improvement of 1.25% pa. Assumed life expectancy from age 65 is as follows:

Mortality assumption at age 65	Males	Females
Retiring today	21.8years	24.3 years
Retiring in 20 years	23.0 years	26.2 years

Commutation assumptions
It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre April 2009 service and 75% of the maximum for post April 2009 service.

50:50 option
It is assumed that 1% of active members (evenly distributed across the age, service and salary range) will take up the 50:50 option in the LGPS 2015 scheme.

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19. Actuarial Present Value of Promised Retirement Benefits
In addition to the triennial funding valuation, the Pension Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

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

31 March 2017 £m		31 March 2018 £m
(1,248)	Present value of promised retirement benefits	(1,107)
837	Fair value of scheme assets (bid value)	856
(411)	**Net liability**	**(251)**

As noted above, the liabilities above are calculated on an IAS19 basis and therefore will differ from the results of the 2017 triennial funding valuation (see note 18) because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used

	2016/17 %	2017/18 %
Inflation / pension increase rate assumption	2.4	2.4
Salary increase rate	4.4	3.2
Discount rate	2.6	2.7

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20. Current Assets

31 March 2017 £000		31 March 2018 £000
	Debtors	
32	• Contributions due – employees	33
112	• Contributions due – employers	113
25	• Sundry debtors	10
169		**156**
2,300	Cash balances	**1,198**
2,469		**1,354**

Analysis of debtors

31 March 2017 £000		31 March 2018 £000
0	Other local authorities	0
117	Public corporations and trading funds	114
52	Other entities and individuals	42
169		**156**

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21. Current Liabilities

31 March 2017 £000		31 March 2018 £000
1,673	Sundry creditors	721
312	Benefits payable	249
1,985		**970**

Analysis of creditors

31 March 2017 £000		31 March 2018 £000
1	Central government bodies	2
1,018	Other local authorities	294
966	Other entities and individuals	674
1,985		**970**

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22. Additional Voluntary Contributions

Market Value 31 March 2017 £000		Market Value 31 March 2018 £000
714	Standard Life	657
55	Scottish Equitable	55
769		**712**

AVC contributions of £18.0k were paid directly to Standard Life during the year (2016/17, £9.0k) and £0.4k paid directly to Scottish Equitable during the year (2016/17, £0.4k).

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23. Agency Services
The Dumfries and Galloway Council Pension Fund pays discretionary awards to the former employees of Dumfries and Galloway Council as well as other employers within the scheme. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. Sums paid are as follows:

2016/17 £000		2017/18 £000
1,627	Dumfries and Galloway Council	2,334
92	Other employers	117
1,719		**2,451**

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24. Related Party Transactions
Dumfries and Galloway Council
The Dumfries and Galloway Council Pension Fund is administered by Dumfries and Galloway Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Pension Fund was charged £285k (£197k in 2016/17) by Dumfries and Galloway Council for expenses incurred in administering the Pension Fund. The Council is also the largest single employer of members of the pension fund and contributed £19.797 Million to the fund in 2017/18 (2016/17 £20.546 Million).

Governance
All members of the Pension Sub Committee were active members of the Pension Fund as at 31 March 2018.

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25. Key Management Personnel
The key management personnel of the fund is the Dumfries and Galloway Council Head of Finance and Procurement. No direct costs are payable by the fund, instead an element of the remuneration and pension benefit identified in the Senior Employee tables within the accounts of Dumfries and Galloway Council is recharged to the fund**.**

2016/17 £000		2017/18 £000
4.8	Recharge in respect of key management personnel	**4.8**

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26. Contingent Assets
3 of the admitted body employers in the Pension Fund hold an insurance bond to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

Dumfries and Galloway Council Pension Fund ("the Fund") Actuarial Statement for 2017/18

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 (FSS), reviewed as part of the 2017 valuation. 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;
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 15 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is around a 66% chance that the Fund will return to full funding over 15 years.

Funding Position as at the last formal funding valuation
The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £837 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £76 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the 2017 valuation report.

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

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

The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	**31 March 2017 (% p.a.)**
Discount rate	3.5%
Salary increase assumption	3.2%
Benefit increase assumption (CPI)	2.4%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current Pensioners	21.8 years	24.3 years
Future Pensioners*	23.0 years	26.2 years

*Currently aged 45

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017
Asset returns over the period have been slightly lower than the valuation discount rate and real bond yields at 31 March 2018 are at a similar level to 31 March 2017. Combining the impact of these leads to a broadly similar overall funding position at 31 March 2018 compared to the last formal valuation. The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA

For and on behalf of Hymans Robertson LLP

20 Waterloo Street, Glasgow, G2 6DB

8 June 2018

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

Dumfries & Galloway Council, as the administering authority for Dumfries & Galloway Council Pension Fund, is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer in the year to 31 March 2018 was the Head of Finance and Procurement,
- to manage its affairs, to secure economic, efficient and effective use of resources and safeguard its assets,
- to approve the Statement of Accounts.

The Chief Financial Officer Responsibilities

The Head of Finance and Procurement is responsible for the preparation of the Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/ LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this statement of accounts, the Head of Finance and Procurement has:

- selected suitable accounting policies and applied them consistently,
- made judgements and estimates that were reasonable and prudent,
- complied with the local authority Code

The Head of Finance and Procurement has also:

- kept proper accounting records which are up to date,
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts provides a 'true and fair view' of the financial position of the Pension Fund at the reporting date and of its income and expenditure for the year ended 31 March 2018.

Paul Garrett
Head of Finance & Procurement
27 September 2018