

Due to the Scottish Government Guidance relating to Covid-19, the meeting will be held remotely.

Tuesday, 7th December, 2021 - 10.00 a.m.

AGENDA

Page Nos.

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST** – In terms of Section 5 of the Code of Conduct, members of the Committee are asked to declare any interest in particular items on the agenda and the nature of the interest(s) at this stage.
- 3. MINUTES –**
 - (a) Minute of the meeting of the Superannuation Fund and Pensions Committee of 28th September, 2021. 3 – 7
 - (b) Fife Pension Board comments arising from the Superannuation Fund and Pensions Committee meeting of 28th September, 2021. 8 – 10
- 4. FIFE PENSION FUND ANNUAL AUDIT REPORT AND AUDITED ACCOUNTS 2020-21** – Report by the Head of Finance.
 - (a) Report by the Executive Director, Finance and Corporate Services 11 – 13
 - (b) ISA 580 Covering Letter Fife Council Pension Fund 14 – 22
 - (c) Fife Pension Fund Annual Audit Report 2020-21 23 – 50
 - (d) Fife Pension Fund Annual Report and Accounts 2020-21 51 – 136
- 5. PENSION FUND BUDGETARY CONTROL** – Report by the Executive Director - Finance and Corporate Services. 137 – 141
- 6. PENSIONS ADMINISTRATION MONITORING REPORT** – Report by the Executive Director - Finance and Corporate Services. 142 – 148
- 7. UPDATE ON 2021/22 AUDIT PLAN AND SUMMARY OF AUDIT REPORTS ISSUED** – Report by the Service Manager, Audit and Risk Management Services. 149 – 152
- 8. POST AUDIT REVIEW** - Report by the Service Manager, Audit and Risk Management Services. 153 – 158
- 9. NATIONAL FRAUD INITIATIVE 2021/22 PROGRESS** – Report by the Service Manager, Audit and Risk Management Services. 159 – 161
- 10./**

10. **PENSION FUND COMMITTEE WORKPLAN** – Report by the Head of Finance. 162 – 165

ITEM LIKELY TO BE CONSIDERED IN PRIVATE

The Committee is asked to resolve, under Section 50(a)(4) of the Local Government (Scotland) Act 1973, as amended, to exclude the public and press from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 6 of part 1 of schedule 7a of the Act.

11. **SUPERANNUATION FUND - INVESTMENT UPDATE** – Report by the Head of Finance. 166 – 171
12. **CONTRIBUTION STABILISATION MECHANISM** - Report by the Head of Finance. 172 – 179

Members are reminded that should they have queries on the detail of a report they should, where possible, contact the report authors in advance of the meeting to seek clarification.

Lindsay Thomson
Head of Legal and Democratic Services
Finance and Corporate Services

Fife House
North Street
Glenrothes
Fife, KY7 5LT

30th November, 2021

Please contact:
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**THE FIFE COUNCIL - SUPERANNUATION FUND AND PENSIONS COMMITTEE AND
FIFE PENSION BOARD – REMOTE MEETING**

28th September, 2021

10.00 a.m. – 12.45 p.m.

PRESENT: Committee - Councillors Dave Dempsey (Convener), David Barratt, Bobby Clelland, Altany Craik, Colin Davidson, Fiona Grant, Alistair Suttie and Jonny Tepp.

Fife Pension Board – Councillors Dave Coleman and Ian Ferguson, Ross Hugh, Gordon Pryde and John Wincott.

ATTENDING: Elaine Muir, Head of Finance, Laura C Robertson, Finance Operations Manager, John Mackie, Pension Administration Team Manager, Fiona Clark, Pensions Specialist, Revenue and Commercial Services, Karen Balfour, Senior Banking and Investments Officer, Finance; Helena Couperwhite, Manager - Committee Services and Wendy MacGregor, Committee Officer, Legal and Democratic Services.

ALSO IN ATTENDANCE: David Hickey, Portfolio Manager, Stewart Piotrowicz, Portfolio Manager, Bruce Miller, Chief Investments Officer, Lothian Pension Fund and Clare Scott, Independent Professional Observer.

APOLOGIES FOR ABSENCE: Committee - Councillor Mino Manekshaw.

Fife Pension Board - Robert Graham, Colin Paterson and Vicki Wyse.

Prior to the start of business, the Convener intimated the intention to vary the sequence of items from that on the agenda and welcomed Clare Scott, to the meeting. Clare had been appointed as Independent Professional Observer for the Fife Pension Fund.

157. DECLARATIONS OF INTEREST

No declarations of interest were made in terms of Standing Order 7.1.

158. MINUTES

The Committee considered:-

- (a) the minute of the Superannuation Fund and Pensions Committee meeting of 15th June, 2021.

Decision

The Committee agreed to approve the minute.

- (b) the Fife Pension Board comments arising from the meeting on 15th June, 2021

Decision/

Decision

The Committee noted:-

- (1) the comments from the meeting on 15th June; and
 - (2) the updates provided by the Head of Finance on the areas within the Fife Pension Board comments.
- (c) the minute of the Superannuation Fund and Pensions Committee meeting of 29th June, 2021.

Decision

The Committee agreed to approve the minute.

- (d) the Fife Pension Board comments arising from the meeting on 29th June, 2021.

Decision

The Committee noted:-

- (1) the comments from the meeting on 29th June; and
- (2) the updates provided by the Head of Finance on the areas within the Fife Pension Board comments.

159. PENSIONS ADMINISTRATION MONITORING

The Committee considered a report by the Executive Director, Finance and Corporate Services providing members with monitoring information on the performance of the Pensions Team and the service provided to members of the fund.

Decision

The Committee:-

- (1) Noted the level of annual performance relative to the target and to the previous year; and
- (2) agreed that the breach of regulations would be recorded in the breaches log and that a report to the Pensions Regulator would not be required.

160./

160. FIFE PENSION FUND - FOSSIL FUELS INVESTMENTS

The Committee considered a report by the Head of Finance providing a response to a motion agreed by the Superannuation Fund and Pensions Committee on 15th June, 2021, for a report to be prepared setting out the impacts for the Fife Pensions Fund if it was to introduce a policy of partial or complete fossil fuel divestment and the steps that would be necessary to achieve this.

Decision

The Committee:-

- (1) noted that the agreed Statement of Responsible Investment Principles (SRIP) recognised the risks and opportunities surrounding Climate Change;
- (2) agreed to advance the actions and commitments contained in the Statement of Responsible Investment Principles;
- (3) agreed that a Development session would be organised, providing specialist investment and legal advice as well as the opportunity for in-depth discussion, questions, and debate to explore the topic on Fossil Fuel Investment further; and
- (4) agreed to the following additional recommendations to the report –
 - noted that the agreed Statement of Responsible Investment Principles (SRIP) sets out our aim that all holdings covered by the Transition Pathway Initiative will have a business plan whose carbon performance is in-line with the Paris agreement or better by 2025;
 - agreed that the SRIP should be updated following COP26 to reflect any changes to international agreements on climate change;
 - agreed that the Fund should consider divestment from companies who fail to meet this ambition; and
 - agreed that the Fund should consider divestment and avoid new investment in fossil fuel companies which are not covered by the Transition Pathway Initiative and that a working definition of a fossil fuel company should be established for this purpose.

Councillor Altany Craik left the meeting following consideration of the above item.

The Committee adjourned at 11.40 a.m.

The Committee reconvened at 11.45 a.m.

161./

161. FIFE PENSION FUND - RISK MANAGEMENT

The Committee considered a report by the Head of Finance providing an updated Risk Register for Fife Pension Fund. The risks associated with the Fund had been reviewed and updated scores provided to reflect the internal controls in places.

Decision

The Committee:-

- (1) reviewed and considered the contents of the report;
- (2) noted that the risks would be reviewed on a regular basis and that reports would be submitted to this Committee should any changes occur or otherwise on an annual basis.

162. FIFE PENSION FUND BUDGETARY CONTROL

The Committee considered a report by the Executive Director, Finance and Corporate Services, providing members with details of the provisional outturn of the Pension Fund for 2020-21 and Budget for 2021-22.

Decision

The Committee:-

- (1) noted the provisional outturn for 2020-21;
- (2) agreed the indicative budget for 2021-22;
- (3) noted that further reports in relation to the financial position of the Fund would be submitted to this Committee on a bi-annual basis.

163. SUPERANNUATION FUND AND PENSIONS COMMITTEE FORWARD WORK PROGRAMME

The Committee noted the content of the Superannuation Fund and Pensions Committee Forward Work Programme which would be updated accordingly.

164. REVIEW OF SHARED SERVICE ARRANGEMENTS (PRIVATE REPORT)

The Committee resolved, under Section 50(a)(4) of the Local Government (Scotland) Act 1973, as amended, to exclude the public and press from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 6 of part 1 of schedule 7a of the Act.

The Committee considered a report by the Head of Finance providing the Committee and Fife Pension Board with an update on the outcome of the annual review of the effectiveness of the Terms of Reference for the Joint Investment Strategy/

2021 SF 77

Strategy Panel (JISP). The report also provided an update in relation to the shared service arrangement between the Fife Pension Fund and the Lothian Pension Fund, detailing a review of progress made relative to the original proposal for collaboration.

Decision

The Committee:-

- (1) noted the outcome of the annual review of the Terms of Reference of the JISP;
- (2) recognised the continuing benefits of collaborative working with Lothian and Falkirk Pension Funds; and
- (3) agreed to endorse continued collaborative working with Lothian and Falkirk Pension Funds.

165. FIFE PENSION FUND - INVESTMENT UPDATE (PRIVATE REPORT)

The Committee resolved, under Section 50(a)(4) of the Local Government (Scotland) Act 1973, as amended, to exclude the public and press from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 6 of part 1 of schedule 7a of the Act.

The Committee considered a report by the Head of Finance providing an overview of the Fund's investments as of 30th June, 2021. A verbal update of manager monitoring activity and of investment strategy was also provided.

Decision

The Committee noted:-

- (1) the Fund's strategic asset allocation and current allocations relative to target;
- (2) the value of the Fund's assets on 30th June, 2021 after returning +5.4% over the quarter;
- (3) that the Fund was making steady progress towards revised target allocations, agreed in June 2021, and;
- (4) that longer term absolute returns were strong and relative returns were above both the asset and liability benchmarks.

Fife Pension Board Meeting

28 September 2021, 08:45

Remote by Teams

Present: Gordon Pryde, John Wincott (Chair), Ross Hugh, Cllr Ian Ferguson, Cllr Dave Coleman, Clare Scott (IPO)

Apologies for absence: Vicki Wyse, Colin Paterson, Robert Graham

Pre-meeting (08:45):

1. The meeting welcomed Clare Scott, the newly appointed Independent Professional Advisor (IPO). Clare gave a brief resume of her career as an actuary in the Investment Industry. Clare intimated that she would be unable to attend our Post Meeting today.

2. Minutes of meeting of Pension Board of 29 June and 1 July were agreed.

3. Matter arising -

JW highlighted that the Agenda contained no update on the Scheduled Bodies Stabilisation Mechanism which had been requested by the Board.

4. Pensions Administration Monitoring (Committee Agenda Item 4)

CS gave an update of her views on the metrics used in the Report. Clare referred to the requirements of The Pensions Regulator Code 14 (Governance and Administration of Public Service Pension Schemes). It was agreed that Clare would provide the Board with a resume of the requirements of Code 14.

Discussion took place around the failure to supply to supply 52 Annual Benefit Statements but it was agreed that this did not constitute a material breach.

The Board continue to be concerned at the impact that the new Oracle Payrolls are having on Pensions Administration

JW referred to the improvement in the position of Transfers-In and the commitment that better staff training should ensure the previous issues should not happen in future.

5. Fossil Fuels (Committee Agenda Item 5)

The Board were concerned at the statement within the Report at 1.5 as to the lack of definition and accuracy of the stated 2.5% for investments in fossil fuel companies.

The Board also expressed concern that the Report gave no recommendation as to the sanctions to be implemented if companies do not comply with the requirements of the Transition Pathway Initiative (TPI).

6. Fife Pension Fund – Risk Management (Committee Agenda Item 6)

A number of concerns were raised with the Committee Report;

- Industry Standards
- Target Risk Scores
- Inability to make sense of risk by reference within appendix to EX
- Definition of RAG status

CS suggested that more detail should be provided about Controls and again highlighted that consideration should be given to the requirement of the TPR Code 14.

7. Fife Pension Fund – Budgetary Control (Committee Agenda Item 7)

The Report confirms that there is a degree of control over the Administrative, Oversight and Governance Costs and are of the opinion that this detail should be quantified within the appendix for the benefits of improved scrutiny.

9. Review of Shared Service Arrangements - (Committee Agenda Item 9)

It was agreed that clarification would be sought on the £354k that is detailed as the savings in fees from the underperforming Lazard mandate.

The Board continue to question the effectiveness of the ability of the Board to review the operations of the JISP when the minutes of the JISP continue to be unavailable to them.

Post meeting.

Present: John Wincott (Chair), Ross Hugh, Cllr Dave Coleman, Cllr Ian Ferguson, Gordon Pryde.

Apologies for absence: Vicki Wyse, Colin Paterson, Robert Graham, Clare Scott

1. Review of Committee Decisions

The Board agreed that there were no decisions agreed made at the Committee that had resulted in a requirement for the Board to request a review.

2. Fossil Fuels (Committee Agenda Item 5)

The Board welcome the commitment to provide a training event on the implications of continued investment/divestment in fossil fuels.

3. Fife Pension Fund – Risk Management (Committee Agenda Item 6)

The Board welcome the report on Risk Management. However, the Board also look forward to the discussions on how Risk Management Reports can be improved. The Board are of the view that the IPO should be consulted for their input.

The Board are particularly concerned around the position with regard to Cyber Security and request that a plan of action be identified to bring this high-risk area under control.

As regards Loss of Funds through Fraud or Misappropriation the Board would welcome sight of the Reviews by Audit around regulatory control

4. Fife Pension Fund – Budgetary Control (Committee Agenda Item 7)

The Board welcome the commitment to provide greater detail around the detail of Administrative, Oversight and Governance costs that are subject to control.

5. Review of Shared Service Arrangements - (Committee Agenda Item 9)

The Board continue to have concerns around the non-disclosure of the JISP Minutes and will remain in consultation with our IPO about this

6. Appointment of IPO

The Board very much welcome the recruitment of the IPO. Their input and assistance is anticipated to greatly enhance the scrutiny of the Committee.

Meeting closed

7th December, 2021

Agenda Item No. 4

Fife Pension Fund Annual Audit Report and Audited Accounts 2020-21

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

This report contains the Audited Accounts for Fife Pension Fund for 2020-21, as well as, the Annual Audit Report. This report also provides a brief response to the External Auditor's report to Fife Council and the Controller of Audit.

Recommendation

It is recommended that Members

- (1) approve the Audited Accounts for signature and
- (2) note the positive report by Audit Scotland, the Council's External Auditors and this management response.

Resource Implications

None.

Legal & Risk Implications

None.

Policy & Impact Assessment

None.

Consultation

None.

1.0 Background

- 1.1. The Local Authority Accounts (Scotland) Regulations 2014 require the audited accounts to be submitted to Committee whose remit includes audit or governance functions, for approval for signature. Once the accounts are approved the statements which form part of the Annual Report and Accounts are then signed. In consider the accounts the Committee must consider a report by the appointed auditor.
- 1.2. The Council's External Auditor requires to communicate matters relating to the audit of the Financial Statements to those charged with governance of the organisation. The appropriate committee to consider governance within Fife Council is the Superannuation and Pension Fund Committee.

2.0 Issues

- 2.1 Fife Pension Fund has a good record of delivering Financial Statements which the Council's External Auditor agrees give a true and fair view of the Pension Fund's financial position. This year is no exception and in overall terms the audit report is positive, particularly considering the challenging circumstances in which the Fund has operated.
- 2.2 The auditor's opinion in relation to the financial statements is unqualified and this means the auditor has concluded that the accounts give a true and fair view of the financial position of the Fife Pension Fund, its assets and liabilities, for the year ended 31 March 2021 and that the accounts have been properly prepared in accordance with relevant legislation and accounting regulations. The auditor found no material weaknesses in the accounting and internal control systems.
- 2.3 The auditor has identified one issue in relation to the Financial Statements relating to the accrual of lump sum payments. The Annual Report and Accounts were updated to address this issue and adjustments made to the financial statements and management have agreed to review this process and deadlines in the coming year to avoid a similar situation in future.
- 2.4 The auditor has made a total of three recommendations in respect of the accruals process, reconciliations and administration costs. Officers have provided a response and a scheduled timeframe to complete the actions.

3.0 Conclusions

- 3.1 In overall terms the audit report is positive and the audit opinion is unqualified. Preparation of the Annual Report and Accounts is one of the key outputs for the Finance and Corporate Services Directorate.
- 3.2 I wish to record my thanks to staff across the Council who have contributed to this process, with particular thanks to both the Pensions Investment and Pensions Administration teams. My thanks also go to Audit Scotland staff for their contribution to the process and for their willingness to work in partnership with Fife Council.

Report Contact

Elaine Muir
Head of Finance
Fife House

Email: elaine.muir@fife.gov.uk

Documents attached:

ISA 580 Covering Letter Fife Pension Fund

Fife Pension Fund Annual Audit Report 2020-21

Fife Pension Fund Annual Report and Accounts 2020-21

Fife Superannuation Fund and Pensions Committee

7 December 2021

Fife Council Pension Fund Audit of 2020/21 annual accounts

Independent auditor's report

1. Our audit work on the 2020/21 annual accounts is now substantially complete. Subject to receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 7 December 2021 (the proposed report is attached at **Appendix A**).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Superannuation Fund and Pensions Committee's consideration our draft annual report on the 2020/21 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.
6. These misstatements are confined to the notes to the accounts and if corrected, there would be no impact on the net assets of the Fund.

Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Superannuation Fund and Pensions Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial

statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.
9. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

APPENDIX A: Proposed Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Fife Pension Fund (the fund) for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the fund during the year ended 31 March 2021 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 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is five years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Executive Director Finance and Corporate Services and Superannuation Fund and Pensions Committee for the financial statements

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

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

The Superannuation Fund and Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;
- identifying which laws and regulations are significant in the context of the fund;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

Reporting on other requirements

Statutory other information

The Executive Director Finance and Corporate Services is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and my auditor's report thereon.

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

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Brian Howarth ACMA CGMA
Audit Director
Audit Scotland
4th Floor, The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

APPENDIX B: Letter of Representation (ISA 580)

Brian Howarth, Audit Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Brian

Fife Pension Fund Annual Accounts 2020/21

1. This representation letter is provided about your audit of the annual accounts of Fife Pension Fund for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Fife Pension Fund's annual accounts for the year ended 31 March 2021.

General

3. Fife Pension Fund and I have fulfilled our statutory responsibilities for the preparation of the 2020/21 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Fife Pension Fund have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (2020/21 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014 (as amended by the Coronavirus (Scotland) Act 2020).
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Fife Pension Fund at 31 March 2021 and the transactions for 2020/21.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2020/21 accounting code where applicable. Where the code does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Fife Pension Fund's circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Fife Pension Fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Fife Pension Fund's ability to continue as a going concern.

Related Party Transactions

10. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2020/21 accounting code. I have made available to you the identity of all the fund's related parties and all the related party relationships and transactions of which I am aware.

Corporate Governance

11. I confirm that Fife Pension Fund has undertaken a review of the system of internal control during 2020/21 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
12. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2021, which require to be reflected.

Actuarial Assumptions

13. The pension assumptions made by the actuary in the IAS 26 report on the Fund have been reviewed and I can confirm that they are consistent with management's own view.

Investment assets and current assets

14. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with 2020/21 Code.

15. On realisation in the ordinary course of the Fund's business at the accounting date, the investment and current assets shown in the net assets statement would be expected, in my opinion, to produce at least the amounts at which they are stated.
16. The fair value of investments which do not trade in an active market has been assessed with regard to underlying value, cash flow or proprietary models and discounted appropriately for the difficulty of redemption.

Contractual commitments

17. All outstanding call payments due to unquoted limited partnership funds have been fully included in the accounts for the period to 31 March 2021.

Employer / Employee contributions

18. A high-level analysis is carried out at the year-end comparing the total monthly contributions in the pension system with the amounts recorded in the financial ledger. In addition, monthly checks are performed on contributions received from employers during the year with any unexpected differences followed-up and investigated.

Liabilities

19. All liabilities at 31 March 2021 of which I am aware have been recognised in the annual accounts.
20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

21. There are no significant contingent liabilities, other than those disclosed in Note 21 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and IAS 37.

Fraud

22. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

23. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Remuneration Report

24. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

25. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Events Subsequent to the Date of the Balance Sheet

26. All events subsequent to 31 March 2021 for which the 2020/21 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Eileen Rowand
Executive Director – Finance and Corporate Services
4th Floor
Fife House
North Street
Glenrothes
Fife
KY7 5LT

Fife Pension Fund

2020/21 Annual Audit Report



Prepared for the Fife Superannuation Fund and Pensions Committee and the Controller of Audit
November 2021

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Key messages

2020/21 annual accounts

- 1 Our opinions on the annual accounts are unmodified.
- 2 The accounts were made available for audit and inspection in line with the statutory timetable.
- 3 There were few issues arising from our accounts audit and good progress was made on prior year recommendations.

Financial management and sustainability

- 4 The triennial funding position has improved, and annual investment returns are better than in 2019/20. The Fund's actively managed global equity mandate performed particularly well.
- 5 There was progress towards the Fund's strategic asset allocation with the divestment of £495 million of equities and further investment in non-gilt debt.
- 6 Internal financial controls were impacted by Covid-19 and the introduction of new council systems.
- 7 Additional accounting controls were introduced in relation to investment values.

Governance, transparency and best value

- 8 There is effective governance which includes revision of key strategies and management of performance.
- 9 Investment costs are benchmarked and remained below average for the Fund's comparison group in 2019/20. Investment performance remained above average.
- 10 The council staff involved with the pension fund adapted to homeworking during Covid-19 and have now started a blended workstyle where office use is now possible.

Introduction

1. This report is a summary of our findings arising from the 2020/21 audit of Fife Pension Fund (the Fund). The scope of our audit was set out in our Annual Audit Plan presented to the Superannuation Fund and Pensions Committee in March 2021. This report comprises:

- an audit of the Fund's annual accounts
- consideration of the wider dimensions of financial management, financial sustainability, governance and transparency, and value for money, that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).

2. The main elements of our audit work in 2020/21 have been:

- an audit of the Fund's 2020/21 annual accounts including the issue of an independent auditor's report setting out our opinions
- a review of the Fund's main financial systems
- consideration of the four audit dimensions of financial management, financial sustainability, governance and transparency and value for money.

Added Value

3. We add value to the Fund through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

4. Fife Council is the administering authority for the Fife Pension Fund. The council delegates this responsibility to the Superannuation Fund and Pensions Committee. The committee is responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Committee is required to review the effectiveness of internal control arrangements and approve the annual accounts.

5. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), and supplementary guidance, and International Standards on Auditing in the UK.

6. As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude on:

- the effectiveness of the Fund's performance management arrangements
- suitability and effectiveness of corporate governance arrangements and financial position
- arrangements for securing financial sustainability.

7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

10. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £37,500 as set out in our Annual Audit Plan remains unchanged.

12. This report is addressed to both the members of the Pension Fund Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main messages

Our opinions on the annual accounts are unmodified.

The accounts were made available for audit and inspection in line with the statutory timetable.

There were few issues arising from our accounts audit and good progress was made on prior year recommendations.

Our audit opinions on the annual accounts are unmodified

14. The annual accounts for the year ended 31 March 2021 were approved by the Superannuation Fund and Pensions Committee on 7 December 2021. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance

15. There were delays in auditing the annual accounts due to Covid-19. The Fife Pension Fund audit was affected by issues in our wider audit portfolio and prioritisation decisions within the Fife audit team.

There were no objections raised to the annual accounts

16. Finance staff produced the accounts in line with the statutory timetable and made them available on the Council's website on 1 July 2021.

17. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for Fife

Pension Fund was published on the Fife Council website and complied with the regulations. No objections were received to the Fife Pension Fund accounts.

Overall materiality is £33 million

18. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of any misstatement.

19. We calculate overall materiality for the financial statements based on the net assets of the fund and set a lower materiality for contributions and benefits.

20. On receipt of the unaudited annual accounts we reviewed our materiality calculations and subsequently revised our assessment of overall materiality downwards slightly [Exhibit 1](#).

Exhibit 1 Materiality values

| Materiality level | Amount |
|---|---------------|
| Overall materiality | £33 million |
| Overall performance materiality | £19.8 million |
| Overall reporting threshold | £250,000 |
| Specific materiality – contributions and benefits | £1 million |
| Specific performance materiality – contributions and benefits | £0.6 million |
| Specific reporting threshold – contributions and benefits | £30,000 |

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

21. [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

We have one significant finding to report on the annual accounts

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including

our view about the qualitative aspects of the body's accounting practices. The finding from our audit of the Fund's annual accounts is outlined in [Exhibit 2](#) with recommendations included in the action plan at [Appendix 1](#).

Exhibit 2

Significant findings from the audit of the annual accounts

| Issue | Resolution |
|--|--|
| <p>1. Lump sum accruals</p> <p>The deadline for accruals was brought forward as part of 2020/21 closedown which meant that £392,000 of lump sums payable had not been included in the accounts.</p> | <p>The accounts were amended and the approach to accruals of lump sums to be reviewed for 2021/22.</p> <p>Recommendation 1</p> <p>(refer Appendix 1, action plan)</p> |

Identified misstatements of £392,000 were adjusted in the accounts, these were less than our performance materiality and we did not need to further revise our audit approach

23. Misstatements of £392,000 were adjusted in the accounts increasing net expenditure. This error related to the under accrual of lump sum payments and has been identified in its entirety ([Exhibit 2](#)).

24. A number of other presentational changes were made to the audited accounts including the separate disclosures of bulk transfers, and additional analysis of pooled investments, in the notes to the accounts.

25. Not all misstatements identified have been adjusted. Some investments are included in the wrong fair value category in Note 13a to the accounts. £8 million of investments shown as Level 1, and a further £8 million shown as Level 3, should be shown as Level 2. Management have not adjusted for these items as the misstatement is confined to the note and the amounts are not material.

26. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

Good progress was made on prior year recommendations

27. The Fund has made good progress in implementing our prior year audit recommendations with three of the six actions complete, one partially complete and two incomplete. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

2. Financial management and sustainability

Financial management is about financial capacity, sound budgetary processes and whether the control environment is operating effectively. Financial sustainability is about the capacity to meet the current and future needs of pension fund members.

Main messages

The triennial funding position has improved, and annual investment returns are better than in 2019/20. The Fund's actively managed global equity mandate performed particularly well.

There was progress towards the Fund's strategic asset allocation with the divestment of £495 million of equities and further investment in non-gilt debt

Internal financial controls were impacted by Covid-19 and the introduction of new council systems.

Additional accounting controls were introduced in relation to investment values.

The triennial funding position has improved, and annual investment returns are better than 2019/20

28. The Fund's key performance statistics are shown at [Exhibit 3](#).

29. The triennial funding review at 31 March 2020 was completed in 2020/21 and shows an improved position with assets representing 97 per cent of the estimated liabilities.

30. In line with the general market recovery from the impact of Covid-19 investment returns have improved in 2020/21. The overall return for the Fund's investments was 29.7 per cent (-3.3 per cent in 2019/20). This exceeded the benchmark return for the fund which was 19.3 per cent. The fund demonstrated an annualised investment return over five-years of 11.6 per cent.

31. Fund assets increased to £3.303 billion in 2020/21. However, liabilities valued on an IAS 19 basis also increased. The IAS 19 valuation used in the financial statements is estimated by the fund's actuary using a high-quality corporate bond rate to discount projected cashflows. The discount rate will typically be lower than the rate used at triennial valuations, leading to a higher

estimate of liabilities. Based on this estimate the Fund's assets represent 80% of promised retirement benefits.

Exhibit 3

Key statistics 2020/21 – Fife Pension Fund

| Increase in net assets | 2020 triennial funding position | 2021 Assets / liabilities (IAS 19) | Investment performance |
|--|----------------------------------|--|---|
| £3.303 billion | 97% | 80% | 29.7% |
| Closing net assets 31 March 2021 30% increase | 2020 triennial funding valuation | Net assets as a proportion of promised retirement benefits 31 March 2021 | Return on investments in 2020-21 |
| £2.536 billion | 93% | 83% | 11.6% |
| Opening assets 1 April 2020 | 2017 triennial funding valuation | Opening net assets as a proportion of promised retirement benefits | Annualised return on investments over 5 years |

Source: 2020/21 Fife Pension Fund annual report and accounts

Fife Council contributions have remained the same

32. Despite the improved overall funding position in the triennial valuation, some employers faced an increase in contribution rates. The employer contribution rate for Fife Council, who are the largest employer in the fund, has remained at 24.5%. The actuary considers a range of factors when setting contribution rates including the outlook for investment performance.

The Government Actuaries Department review the triennial valuation process and will report on any issues

33. The Government Actuaries Department (GAD), on behalf of the Scottish Ministers, are currently undertaking their review of the 2020 triennial revaluation under section 13 of the Public Service Pensions Act 2013. The review covers the consistency with which actuaries have undertaken valuations and their compliance with regulations. It also looks at the solvency and long-term efficiency of the funds. There were no issues arising for Fife from the previous review of the 2017 revaluation and we have not been made aware of any issues arising from the current review.

All LGPS funds showed positive investment returns, Fife had the fourth highest return

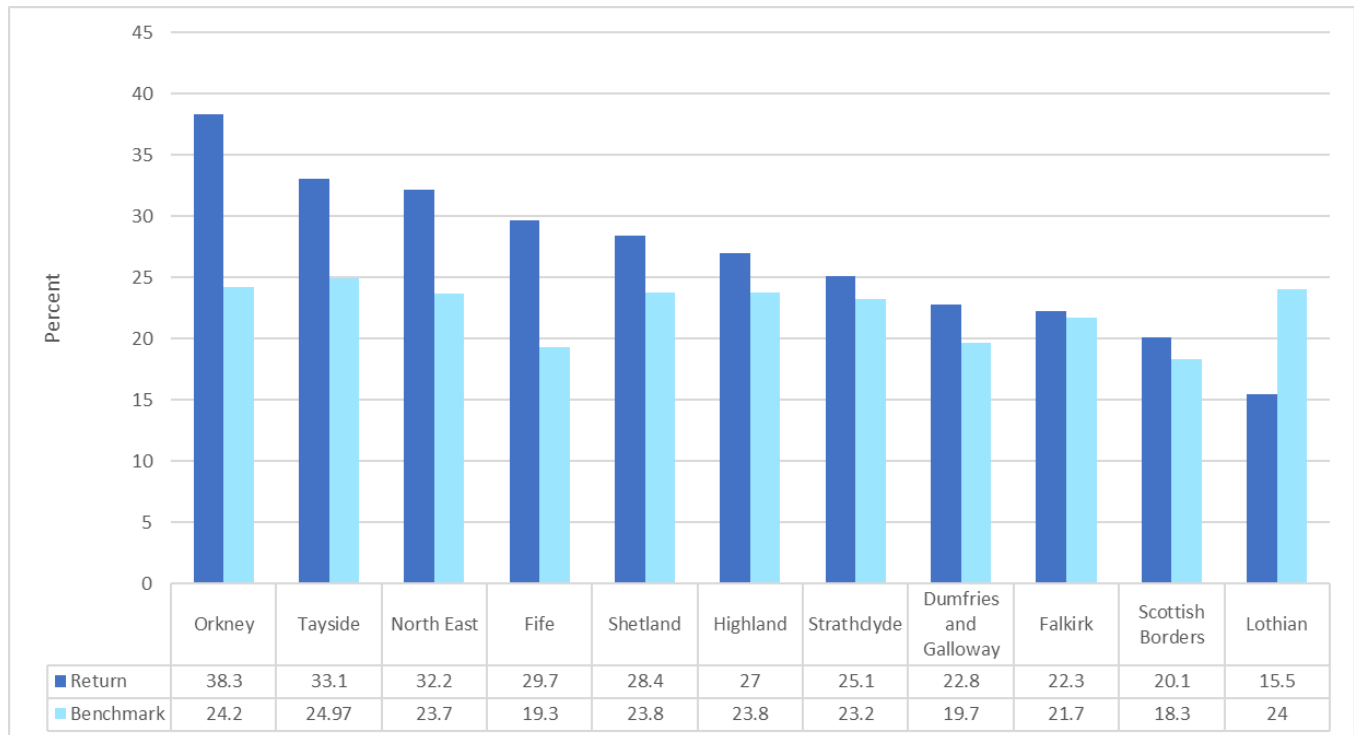
34. All LGPS funds in Scotland demonstrated positive investment returns with most exceeding their benchmarks in 2020/21. Fife pension fund returns were

the fourth highest. Investment returns and published benchmarks are shown in [Exhibit 4](#).

Exhibit 4

Investment returns and benchmarks – LGPS funds Scotland

2020/21 saw strong overall investment returns. Fife's reported return was 4th highest.



Source: Unaudited annual accounts 2020/21

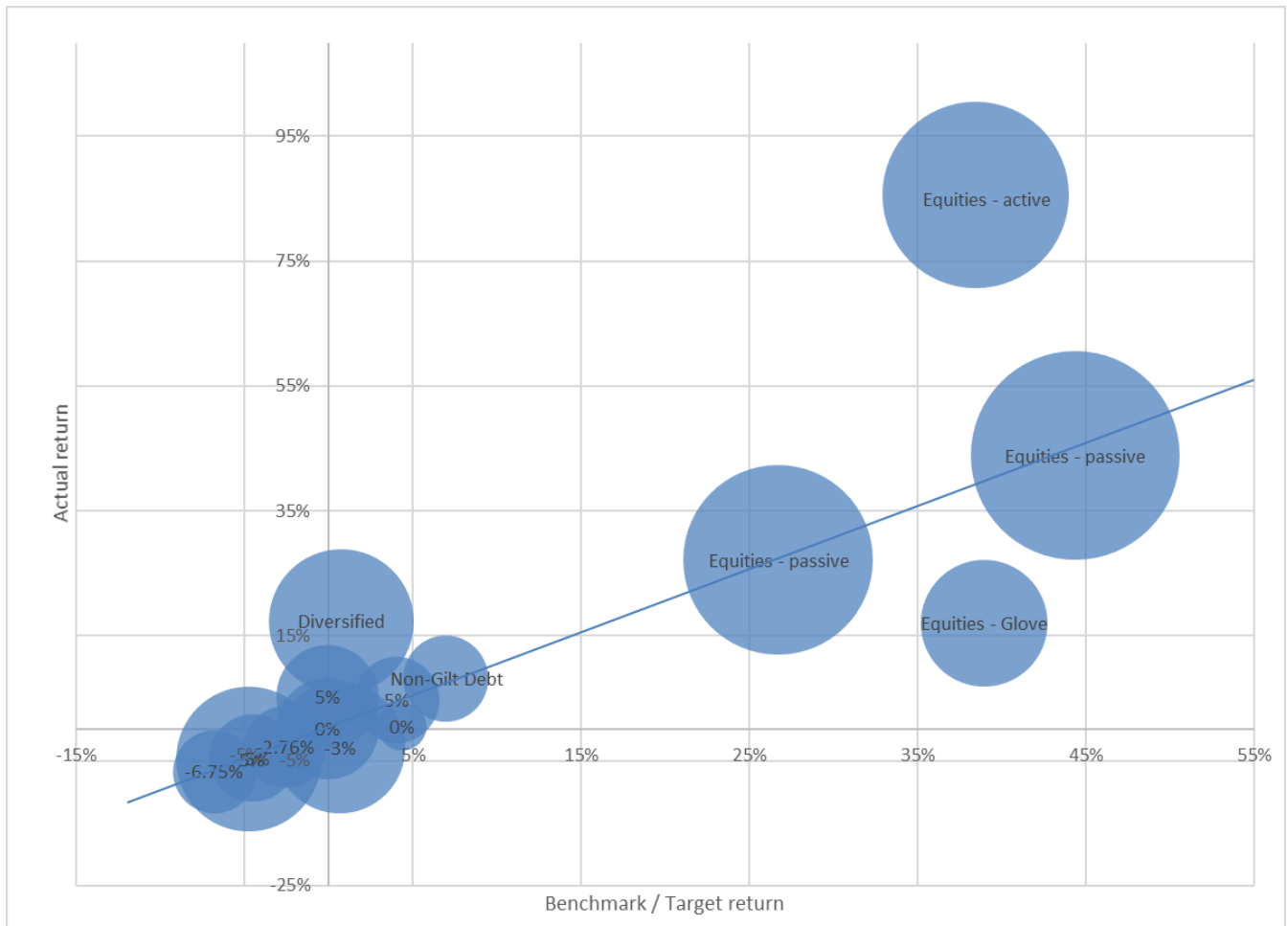
35. Fund benchmarks and annual returns reflect the investment strategy of each fund. Different funds will have different investment strategies and different exposure to market volatility and risk. Generally speaking, returns will be closer to benchmark where funds are managed passively as benchmarks typically reflect the average market performance for different categories of asset.

The Fund's actively managed global equity mandate performed particularly well

36. The Fund's actively managed global equity mandate again significantly outperformed its benchmark. Equities generally performed strongly in 2020/21 whilst other asset categories performed less well. Investment returns and benchmarks are shown for the Fund's investment mandates in [Exhibit 5](#).

Exhibit 5**Fife Pension Fund investment returns and targets by mandate 2020/21**

Equities performed strongly, but other categories of asset performed less well.



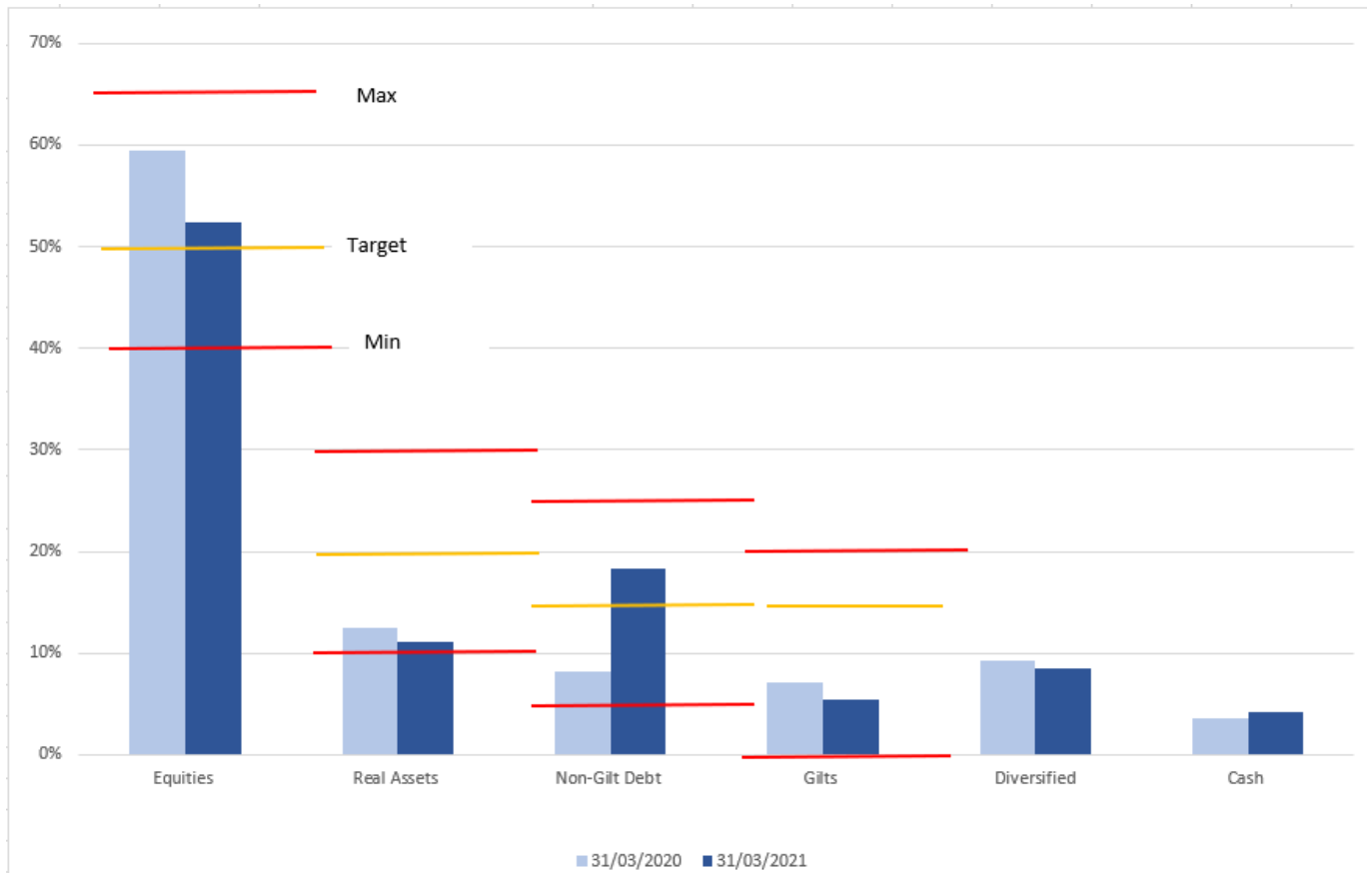
Source: Fife Pension Fund records and reports – not all mandates were in place for the full year

There was progress towards the Fund's strategic asset allocation

37. In 2020/21 there was further progress towards the fund's strategic asset allocation with the divestment of £495 million of equities and further investment in non-gilt debt. The Fund's opening and closing asset allocation is shown in [Exhibit 6](#).

Exhibit 6**Asset allocation and strategy ranges by policy group 2020 and 2021**

The fund divested equities and invested in non-gilt debt in 2020/21.



Source: Annual report and accounts – the diversified asset category also includes equity investments – Cash excludes balances held by investment managers awaiting investment - The asset allocation targets and ranges are from the investment strategy in effect for the period covered.

Three small employers left the Fund in 2020/21 and one transferred their membership to Lothian Pension Fund

38. Fife Women’s Aid, St Andrews Botanic Garden Trust and Fife Historic Buildings Trust left the LGPS under the Funds small body cessation scheme in 2020. In line with national agreement, Visit Scotland membership was transferred to Lothian Pension Fund.

Internal financial controls were impacted by Covid-19 and the introduction of new council systems

39. The introduction of new council systems during 2020/21 compounded issues arising due to homeworking and impacted internal financial controls. We concluded that overall, key controls were operating effectively at the year-end with reconciliations complete. However, in year reconciliations were not always completed and reviewed on a timely basis and this exposed the Fund to increased risk for the period affected.

Recommendation 2

Ensure that all key reconciliations are undertaken and reviewed on a timely basis.

40. The I-Connect interface file from the Council's new payroll system could not be processed to update the pension administration system automatically. This led to additional work for the pensions team and delays in processing council new starters and leavers. The pensions team were able to work around the problem to ensure that member benefit statements could be issued by 31 August 2021.

41. There were also issues for pensions administration following the introduction of the Council's new payments system. The identity of retirees receiving lump sum payments on the new system was visible to all users and this was not deemed appropriate. The pensions team reverted to manual payment orders for lump sums to get around this problem.

The investments team introduced additional accounting controls

42. In addition to dealing with the significant divestment and reallocation of funds in 2020/21, the investments team also introduced additional accounting controls around investment values. There is now a quarterly reconciliation of investment values in custodian reports with the values in reports from investment managers. It is the custodian record that forms the basis of the Fund's accounting records. The reconciliations mean that any significant differences are identified and followed up, helping to ensure the accounting records are reliable.

The Fund is pro-active in investigating matches and reporting the outcomes of the National Fraud Initiative

43. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The 2020/21 exercise is ongoing and has helped identify a number of cases where overpayments have been made in relation to dead pensioners. The Pension Fund is pro-active in investigating matches and reporting the outcomes of NFI activity.

3. Governance, transparency and best value

The effectiveness of scrutiny and oversight and the transparent reporting of information. Using resources effectively and continually improving services.

Main messages

There is effective governance which includes revision of key strategies and management of performance.

Investment costs are benchmarked and remained below average for the Fund's comparison group in 2019/20. Investment performance remained above average.

The council staff involved with the pension fund adapted to homeworking during Covid-19 and have now started a blended workstyle where office use is now possible.

There is effective governance

44. The Superannuation Fund and Pensions Committee met on the 17 March 2020, before committees were suspended due to Covid-19. Committee arrangements commenced again in August 2020 with committees meeting virtually. Through, our attendance at the Committee we have observed a good level of review and scrutiny by members.

45. During the year the Pension Board has raised a number of governance issues which officers have addressed. The chair of the Pension Board now attends pre-agenda planning meetings and briefings.

46. An Independent Professional Observer (IPO) has recently been appointed to help provide support, feedback, and assistance on the administration of the Fund. The IPO will support both the Board and the Committee in this role.

The Fund revised its Funding Strategy Statement, Investment Strategy and Statement of Investment Principles

47. The funding strategy statement was updated as part of the 2020 triennial valuation process. There were no material changes to the statement, but updates were made for regulatory changes and uncertainties.

48. The Fund recently revised its investment strategy with input from its investment advisors and advice from the Joint Investment Strategy Panel. A revised investment strategy was approved on 29 June 2021. The revised strategy increases the target allocation for equities and reduces the target for real assets ([Exhibit 7](#)).

Exhibit 7

Fife Pension Fund Investment strategy asset allocations

| Policy Group | Previous strategy | Revised strategy | Previous permitted range | Revised permitted range |
|----------------------|-------------------|------------------|--------------------------|-------------------------|
| Equities | 50% | 55% | 40%- 65% | 45% - 65% |
| Real Assets | 20% | 15% | 10% - 30% | 10% - 25% |
| Non-Gilt Debt | 15% | 15% | 5% - 25% | 5% - 25% |
| LDI (formerly Gilts) | 15% | 15% | 0% - 20% | 5% - 25% |
| Cash | 0% | 0% | 0%-10% | 0%-15% |
| Total | 100% | 100% | | |

Source: Superannuation Fund and Pensions Committee report

49. Implementation of the investment strategy is delegated to the Executive Director of Finance and Corporate Services for Fife Council, who delegates to the Head of Finance with the support and advice of the Joint Investment Strategy Panel which is part of the collaboration arrangement with Lothian and Falkirk pension funds.

50. The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles. The revised statement reflects the revised investment strategy.

Investment managers are held to account on performance and cost

51. There are regular contract monitoring meetings with the Fund's investment managers where they are held to account on performance and cost. Officers are supported by full time investment experts from Lothian who attend these meetings.

Investment costs are benchmarked and remained below average for the Fund's comparison group

52. The Fund benchmarks its investment performance and costs each year to ensure that it is receiving value for money. Costs for 2019/20 (the last year to be benchmarked) have remained below the average for the Fund's comparison group whilst investment performance was above average.

Staff adapted to homeworking during Covid-19 and are now adopting a blended workstyle

53. All council staff involved with the pensions fund have adapted to homeworking during Covid-19. Despite the associated pressures services were maintained.

54. Initially it was necessary for the pensions administration team to prioritise the ongoing payment of pensions and processing of new retirements. There was an increased reliance on email communications which added to workloads and it was sometime before staff were provided with mobile phones to make and receive calls to members who do not have access to online communication.

55. Council staff have now adopted a blended workstyle with the option to access the office for part of the week.

There is a pensions administration strategy and performance are reported to Committee on a quarterly basis

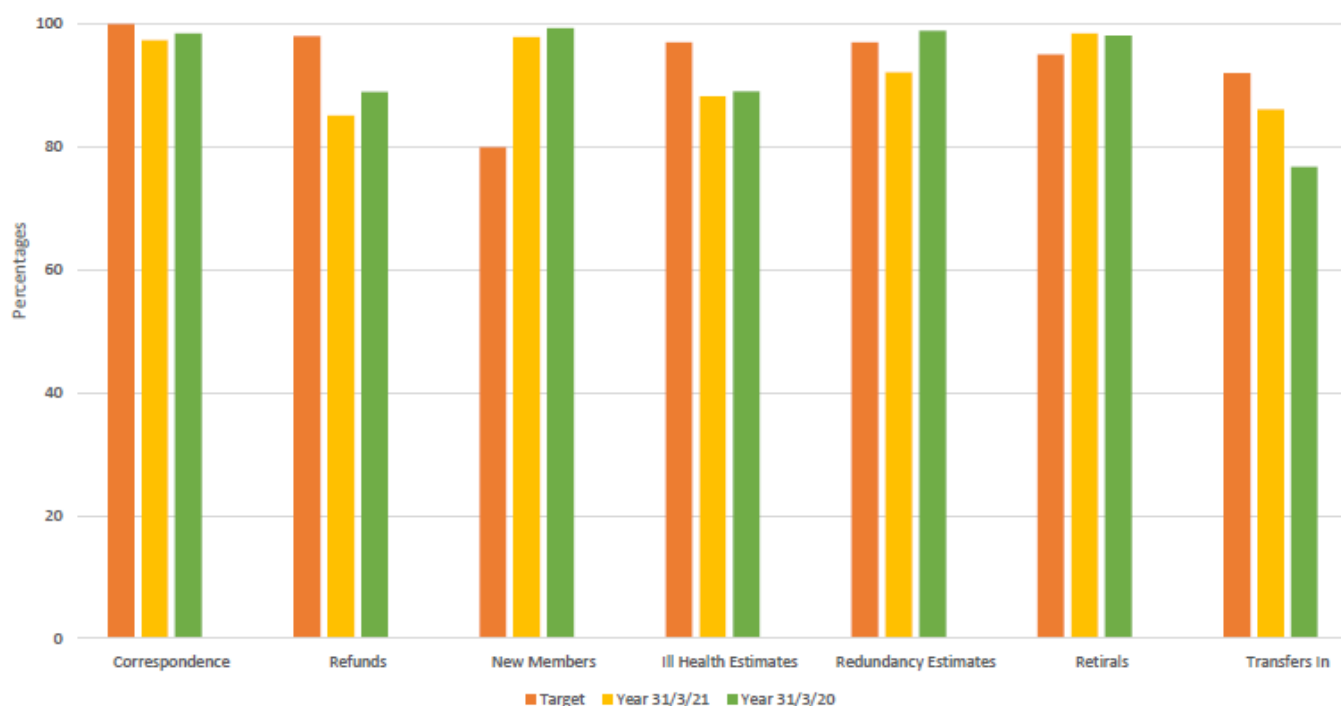
56. The Fund has a pensions administration strategy and performance is reported to committee on a quarterly basis. Performance indicators and targets are kept under review.

57. Sickness absence added to the pressures on the pensions team in 2020/21 making it necessary to train staff on new areas to improve the resilience of the team. There are currently no long-term sickness absence issues in the team.

58. Performance against key targets in 2020/21 has largely been maintained ([Exhibit 8](#)).

Exhibit 8

Performance against key administration targets 2020/21 and 2019/20



Source: Superannuation Fund and Pensions Committee report June 2021

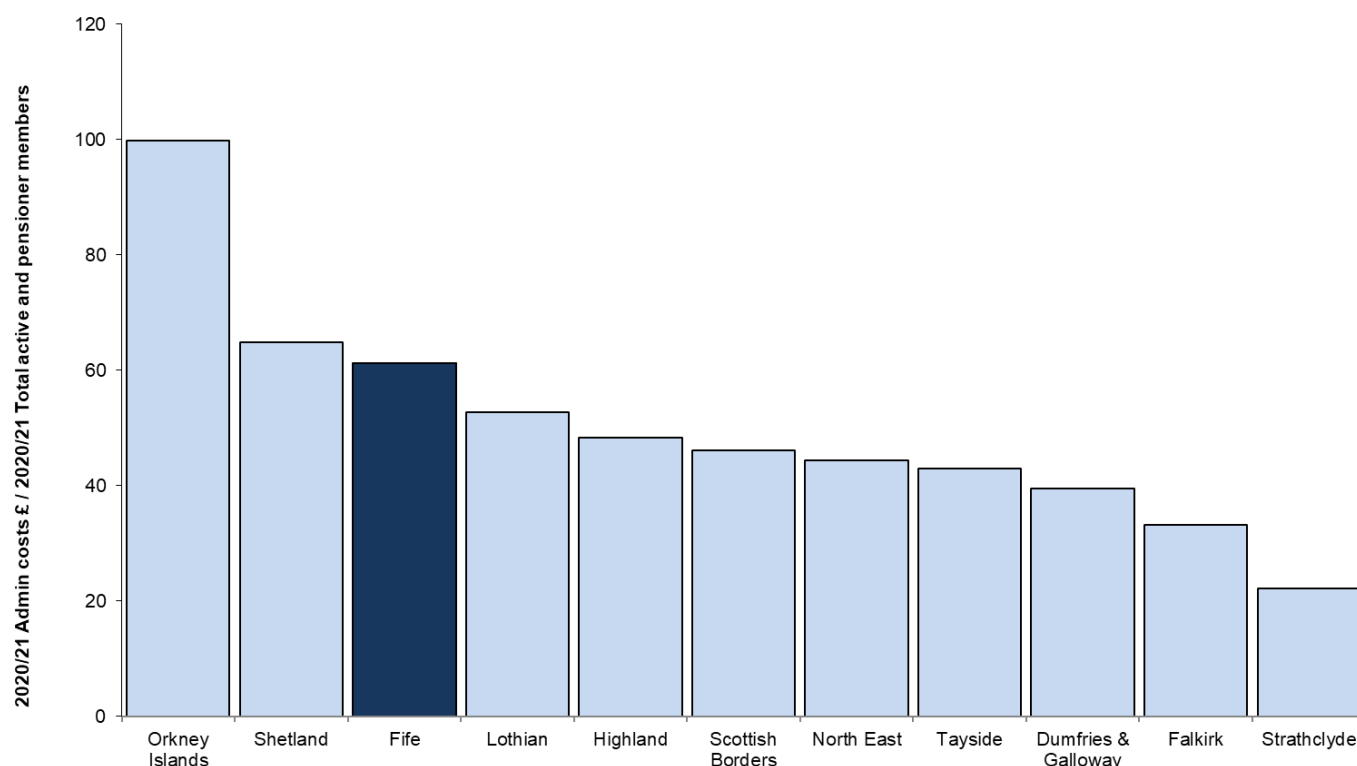
Administration costs appear to be relatively high

59. . The total cost of administration disclosed in the accounts for 2020/21 is £1.9 million and includes the cost of the pensions team along with central support costs. When divided by the total active and pensioner members this equates to around £60 and appears to be relatively high compared to other Scottish funds ([Exhibit 9](#)).

Exhibit 9

Administration cost per active and pensioner member 2020/21

Fife's administration costs divided by total active and pensioner members is around £60.



Source: Unaudited annual accounts 2020/21

60. There are currently no unit costs for administration included in budget monitoring and administration reports.

Recommendation 3

Consider the inclusion of unit costs for administration in budget monitoring and administration reports.

GMP and McCloud will continue to impact on administration and require additional data from employers

61. The Guaranteed Minimum Pension equalisation and indexation exercise has been completed. The exercise was necessitated by changes to the state pension scheme which ended contracting out arrangements. The reconciliation exercise has resulted in increases to pensions paid to some affected members. Administratively we understand that it will be necessary for ongoing checks to be completed for some members on retirement.

62. The McCloud remedy extends protections offered when the LGPS changed in 2015 to a greater number of members. This will result in some members receiving higher benefits when the regulations are changed. Administratively the fund will need additional information from employers, mainly in relation to part

time working and breaks in service, in order to make the appropriate calculations.

There are no breaches of regulation to report

63. The Pensions Regulator took on responsibility for the oversight of governance arrangements for the LGPS in 2015 and any significant breaches of regulation are required to be reported to the Pensions Regulator. We are not aware of any breaches which require reporting.

The LGPS structural review is still ongoing

64. The Scottish Local Government Scheme Advisory Board has appointed a Strategic Programme Manager for the ongoing review of the structure of the Scottish LGPS. This review has been ongoing since 2016. The programme manager has been tasked with providing a series of options for the future structure of the scheme taking account of previous consultation responses following meetings with relevant stakeholders.

National performance reports

65. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, we published reports which may be of interest to the Fund. These are outlined in [Appendix 3](#) accompanying this report.

Appendix 1

Action plan 2020/21

2020/21 recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|---|---|--|
| <p>1. Lump Sum accruals</p> <p>The closedown timetable for 2020/21 meant that officers were unable to fully identify lump sum payments relating to the old year and ensure that they were accounted for correctly.</p> <p>Risk – that there are material errors to the accounts.</p> | <p>Ensure that appropriate accruals for lump sums are made.</p> <p>Paragraph 23</p> | <p>Close down procedures will be reviewed and updated to include additional checks on values to be accrued.</p> <p>Finance Operations Manager 31 March 2022</p> |
| <p>2. Reconciliations</p> <p>Our review of key controls in the year identified that a number of bank and feeder system reconciliations had not been produced and reviewed on a timely basis.</p> <p>Risk – that any fraud or error go unidentified for longer.</p> | <p>Ensure that all key reconciliations are undertaken and reviewed on a timely basis.</p> <p>Paragraph 39</p> | <p>Reconciliations were temporarily impacted as might be expected following a significant system change. The team will reconcile in a timely manner as all issues have been resolved and reconciliations have once again reached a business as usual state.</p> <p>Service Manager 31 March 2022</p> |
| <p>3. Administration costs</p> <p>Administration costs appear to be relatively high when expressed as a cost per active and pensioner member. There is no routine consideration of unit costs for administration.</p> <p>Risk – that there is not effective scrutiny of costs.</p> | <p>Consider the inclusion of unit costs for administration in budget monitoring and administration reports.</p> <p>Paragraph 60</p> | <p>Consideration will be given to including this information in future reports.</p> <p>Finance Operations Manager 31 December 2022</p> |

Follow-up of prior year recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|---|---|---|
| b/f 1. Review of investment manager reports | <p>As part of the accounts preparation process, investment manager reports are reviewed and reconciled with custodian reports so that significant valuation issues are identified and actioned including:</p> <ul style="list-style-type: none"> • Material valuation uncertainty disclosures • Valuation lag in relation to level 3 investments • Impaired investments. | <p>Complete Finance Operations Manager 31 March 2021</p> |
| b/f 2. Significant changes to governance arrangement due to Covid-19 | <p>As part of the accounts preparation process, ensure that the Annual Governance Statement includes coverage of significant governance developments up to the date the accounts are approved for signature.</p> | <p>Complete Finance Operations Manager 31 March 2021</p> |
| b/f 3. Investment fair value hierarchy | <p>As part of the accounts preparation process, ensure that custodian classification of new investments is consistent with that of the investment manager.</p> | <p>Incomplete Some minor anomalies again identified with fair value hierarchy classification. Finance Operations Manager 31 March 2022</p> |
| b/f 4. Investment Management Expenses | <p>As part of the accounts preparation process, ensure that investment managers are complying with the voluntary code on cost transparency and that they provide information to the fund on a timely basis.</p> | <p>Complete Finance Operations Manager 31 March 2021</p> |
| b/f 5. Service organisation control reports and complementary user entity controls | <p>Include the review of service organisation control reports and complementary user entity controls specified by the custodian as part of the</p> | <p>Partially complete Service organisation control reports were reviewed in the year. But complimentary user entity controls suggested by</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|--|--|---|
| | governance assurance framework. | the custodian have not been reviewed. Finance Operations Manager 31 March 2022 |
| b/f 6. Bank and feeder system reconciliations | Arrangements for the review bank and feeder system reconciliations under homeworking should be clarified and reviews better evidenced. | Incomplete See Recommendation 2 above. Service manager? 31 March 2022 |

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| <p>1. Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that result in fraudulent financial statements.</p> | <p>Data analytics risk assessment of ledger transactions (including journals) and testing.</p> <p>Review of accounting estimates.</p> <p>Focussed testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> | <p>We reviewed all ledger transactions for reasonableness.</p> <p>We confirmed the validity of selected journals posted in the year and established the extent and nature of routine journal processing.</p> <p>We confirmed that estimates are supported by third party evidence.</p> <p>Our testing of accruals and prepayments revealed no material errors.</p> <p>We considered no transactions to be outside the normal course of business.</p> <p>There was no evidence of management override of controls.</p> |
| <p>2. Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation of retirement benefits.</p> <p>Investments include level 3 investments, such as unquoted property investment</p> | <p>Review of user entity controls in relation to the use of service organisations.</p> <p>Confirmation of valuations to reports and / or other supporting information.</p> <p>Consider any investment valuation caveats regarding material uncertainty.</p> | <p>Level 3 investments</p> <p>No control issues have been identified, in relation to valuation, in investment manager controls reports.</p> <p>There were no material valuation uncertainty disclosures notified to the Fund.</p> <p>Most open ended property investment funds reopened</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|---|
| <p>companies, where the valuations involve the significant application of judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include financial and demographic assumptions which can have a significant impact on the present value of promised retirement benefits disclosed in the accounts.</p> | <p>Consider the extent to which investment funds are gated as at 31 March 2021.</p> <p>For a sample of investments undertake a reasonableness check on valuations provided.</p> <p>Consider the reasonableness of the assumptions used to estimate the present value of promised retirement benefits.</p> | <p>following closures due to Covid-19. Only one of the Fund's open ended property investments remains closed to redemption at 31 March 2021.</p> <p>Valuations tested were supported by valuation reports.</p> <p>Actuarial</p> <p>We reviewed the results of the actuary's work together with the reasonableness of their assumptions using our own consulting actuary.</p> <p>We concluded that figures in the accounts that are subject to estimates and judgements are fairly stated.</p> |
| <p>3. New financial systems</p> <p>Fife Council, as the administering authority, introduced new accounts payments and payroll systems in 2020-21 along with a new cloud-based main accounting system.</p> <p>The move to new systems inevitably increases risk as balances are transferred and interfaces updated. Controls and reconciliations need to be adapted to take account of differences between systems, and levels of understanding can take time to build.</p> | <p>Review the migration of opening balances</p> <p>Test the controls in the new systems.</p> <p>Review reconciliation arrangements and year end reconciliations.</p> | <p>Ledger balances were migrated to the new main accounting system correctly.</p> <p>Key year end reconciliations were completed satisfactorily.</p> <p>There were delays to the completion and review of reconciliations during the year.</p> <p>We noted that the move to new systems led to additional work for the pensions team.</p> <p>There were issues during the implementation period but we concluded that financial statements were materially correct.</p> |

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| <p>4. Triennial funding valuation data submission</p> <p>In 2020-21 the pension fund submitted information to the actuary which formed the basis 2020 triennial funding valuation.</p> <p>The accuracy of the data submitted is key to the valuation which in turn informs employer contributions and pension fund strategy.</p> <p>Employer body auditors are likely to request assurances from us that data submitted was accurate and complete.</p> | <p>Review of the data extraction and submission process.</p> <p>Agreement of information to the pensions administration system.</p> <p>Consideration of data quality reports from the actuary.</p> | <p>A pre-submission data cleansing exercise was facilitated by the Fund's actuary which confirmed that the data was fit for purpose.</p> <p>There were no significant issues identified that would have impacted the calculation of employer liability and contribution rates.</p> <p>However, there was no reporting of the data cleansing exercise to committee and were unable to obtain details of how exceptions were addressed.</p> <p>The Fund's actuary was satisfied with the quality of data submitted.</p> |

Appendix 3

Summary of national performance reports 2020/21

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Fife Pension Fund

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Fife Pension Fund Annual Report & Accounts 2020-21



Fife Pension Fund Annual Report & Accounts 2020-21

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MANAGEMENT COMMENTARY

Introduction

Welcome to the Annual Report and Accounts for the 2020-21 Local Government Pension Scheme (LGPS) administered by Fife Council. The report is intended to keep members, employers, pensioners and other interested stakeholders informed about the management and performance of the Pension Fund.

The report has been produced in accordance with Regulation 55 of the Local Government Pension Scheme (Scotland) Regulation 2018 and supporting guidance issued by Scottish Ministers. The accounts have been prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Schedule 6 of The Coronavirus (Scotland) Act 2020 gives local authorities scope to vary the timetable for producing their 2020-21 Annual Report and Accounts. Notwithstanding this easement, the draft Annual Report and Accounts for the Fund is being published in accordance with the standard timescale for accounts production.

Coronavirus (COVID19)

The first few months of 2020 saw the outbreak of a global pandemic, coronavirus (COVID19) which resulted in both the UK and Scottish Governments imposing restrictions through guidance and law on the movement of people with full effect from 23 March 2020. In response to the Government restrictions, the Council closed all offices to the public schools and other facilities were closed meaning that all staff involved in Pension Fund business have been working from home throughout the whole of the financial year 2020-21.

Throughout the year, there was continued review of government restrictions and subsequent lockdown arrangements in place but the broader impact of the pandemic will continue to be felt in the coming years. From the spring of 2021, with the initial roll out of the vaccination programmed, there is planned easing of restrictions into Summer 2021 but uncertainty continues.

The vaccine roll out has had a positive impact on the market and rising economic optimism.

Strategy and Business Model

As explained in the Funding Strategy Statement that can be accessed at: www.fifepensionfund.org, the fund has a long term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due. Fund health is monitored every three years by means of review by an independent actuary (see Triennial Review, page 26).

Principal Risks and Uncertainty

There are two main sources of uncertainty that affect whether the fund holds sufficient funds to pay future pension; the cost of future pensions and the value of investments, this risk is of increased significance given the recent market fluctuations experienced during the COVID19 pandemic. The risk of failing to make adequate provision for the future is managed by having an independent actuary value the liabilities of the fund every three years and set contribution rates (see Actuarial Statement on page 26). The risk of losing money on investments is managed by having an independent investment adviser review the Fund's investment strategy periodically and by dividing assets between a number of separate investment management firms, chosen to offer diversity and a range of investment styles as set out in the Investment Management Arrangements section of this report. The principal risks facing the fund are described in more detail in the Statement of Investment Principles (Appendix 1).

Overview of Fund Business

Under the statutory provisions of the Local Government Pension Scheme, Fife Council is designated as an "Administering Authority" and is required to operate and maintain a pension fund – the Fife Pension Fund (the Fund).

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. The Fund also receives income from employee contributions and its investments, which include equities, bonds, property, private debt and infrastructure.

The fund operates under the terms of the Local Government Pension Scheme (LGPS), which is a public sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public sector pension scheme. Teachers cannot be members of the LGPS as they have a separate national pension scheme.

A list of employers who contribute to the Fund as either scheduled or admitted bodies, can be found in the 'Membership of the Fund' section of this report. The number of employers has reduced in 2020-21 reflecting the implementation of the Small Employers Exit proposal and transfer of Visit Scotland.

Review of the Year

Key Facts and Figures

| | |
|-------------------------------|--|
| 2020-21 Key Highlights | <ul style="list-style-type: none"> • £3,304m net assets an increase of £768m on 2019-20 • Strong performance return of 29.7% for 2020-21 and 10.4% for the rolling 3 year period • Fund continues to exceed its strategic investment return over the rolling 3 year period • 36,489 members a decrease of 119 • Funding level 97% at Valuation 2020 |
|-------------------------------|--|

Table 1 Financial Highlights

| Financial Highlights | 2020-21 | 2019-20 | Change |
|--------------------------------------|-------------|-------------|-------------|
| Value of Fund | £3,303.159m | £2,535.587m | £767.572m |
| Operational (Surplus)/Deficit | (£767.572)m | £75.924m | (£843.496)m |
| Employers Contributed | £85.323m | £80.922m | £4.401m |
| Employees Contributed | £20.440m | £19.418m | £1.022m |
| Pensions and Other Benefits Paid out | £86.723m | £87.700m | (£0.977)m |
| Transfer values paid in | £2.335m | £2.454m | (£0.119)m |
| Transfer values paid out | £7.376m | £2.442m | £4.934m |

Table 2 Investment Highlights

| Investment Highlights | 2020-21 | 2019-20 |
|-------------------------|---------|---------|
| Investment Return | +29.73% | -3.32% |
| Performance v Benchmark | +10.44% | +2.71% |

The fund has experienced a significant change in value of £767.572m represented by a significant gain in capital value of investments of £747.065m (2019-20 loss £102.175m) coupled with income from dividends and interest was £24.222m (2019-20 £30.070m). The fund experienced a net surplus of £13.803m (2019-20 £12.419m) from dealings with members. .

Fife Pension Fund complies with CIPFA guidance in terms of accounting for and disclosing investment management expenses. Details are disclosed in Notes 9 and 9a of the accounts. This guidance has been updated for 2020-21 and now discloses the transactions costs by different investment category.

The Transaction costs for 2020-21 are reported as £2.584m (2019-20 £3.539m), these reflect the cost of the day to day management of the fund to achieve its objectives.

Fife Pension Fund is committed to and continuing participation in the Cost Transparency Initiative and completion of templates has highlighted costs that were not previously disclosed or reported.

To demonstrate its continued commitment the fund also took part in CEM Benchmarking exercise for 2019-20 and the results were reported to Committee in March 2021. The results demonstrated that the fund

continues to perform well in terms of both transaction costs and returns in comparison with our peers. Benchmarking and Cost Transparency continues to be a priority with participation in these is set to continue.

Investment Management Arrangements

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

The Statement of Investment Principles (SIP) (Appendix 1) and the Fund's Funding Strategy Statement give more information on the fund's investment framework at the start of the year.

The investment of Funds is undertaken by a range of third party investment managers. Safeguarding of the Fund assets is undertaken by the Custodian, Northern Trust.

Under the Fund's governance arrangements, the Pension Committee is responsible for setting the high level investment strategy and delegates the implementation of that strategy to the Executive Director Finance and Corporate Services, who delegates this to the Head of Finance.

Both the Committee and Head of Finance receive advice from the Joint Investment Strategy Panel (JISP) which consists of FCA qualified investment professionals from the Lothian Pension Fund as well as three independent advisers. This arrangement is key to the collaborative relationship between Fife, Falkirk and Lothian Pension Funds which entails the Lothian Fund, through its investment vehicle LPFI Limited, providing investment support. The Head of Finance reviews any advice, assesses the risk and reward and manages the implementation.

The current Investment Strategy of the fund was approved by the then Superannuation Fund & Pensions Sub Committee in June 2021 and is set out in the Statement of Investment Principles. (Appendix 1)

Ranges to limit asset allocations under normal financial conditions are in place per Table 3. The ranges provide controls within which the nominated officer, the Head of Finance, will implement the strategy and aim to avoid unnecessary and potentially costly rebalancing.

Table 3 Investment Strategy

| Policy Group | Strategy 2019-24 % | Revised Strategy % | Current Permitted Range | Revised Permitted Range |
|----------------------|--------------------|--------------------|-------------------------|-------------------------|
| Equities | 50 | 55 | 40%-65% | 45%-65% |
| Real Assets | 20 | 15 | 10%-30% | 10%-25% |
| Non-Gilt Debt | 15 | 15 | 5%-25% | 5%-25% |
| LDI (formerly Gilts) | 15 | 15 | 0-20% | 5%-25% |
| Cash | 0 | 0 | 0-10% | 0%-15% |
| Total | 100 | 100 | | |

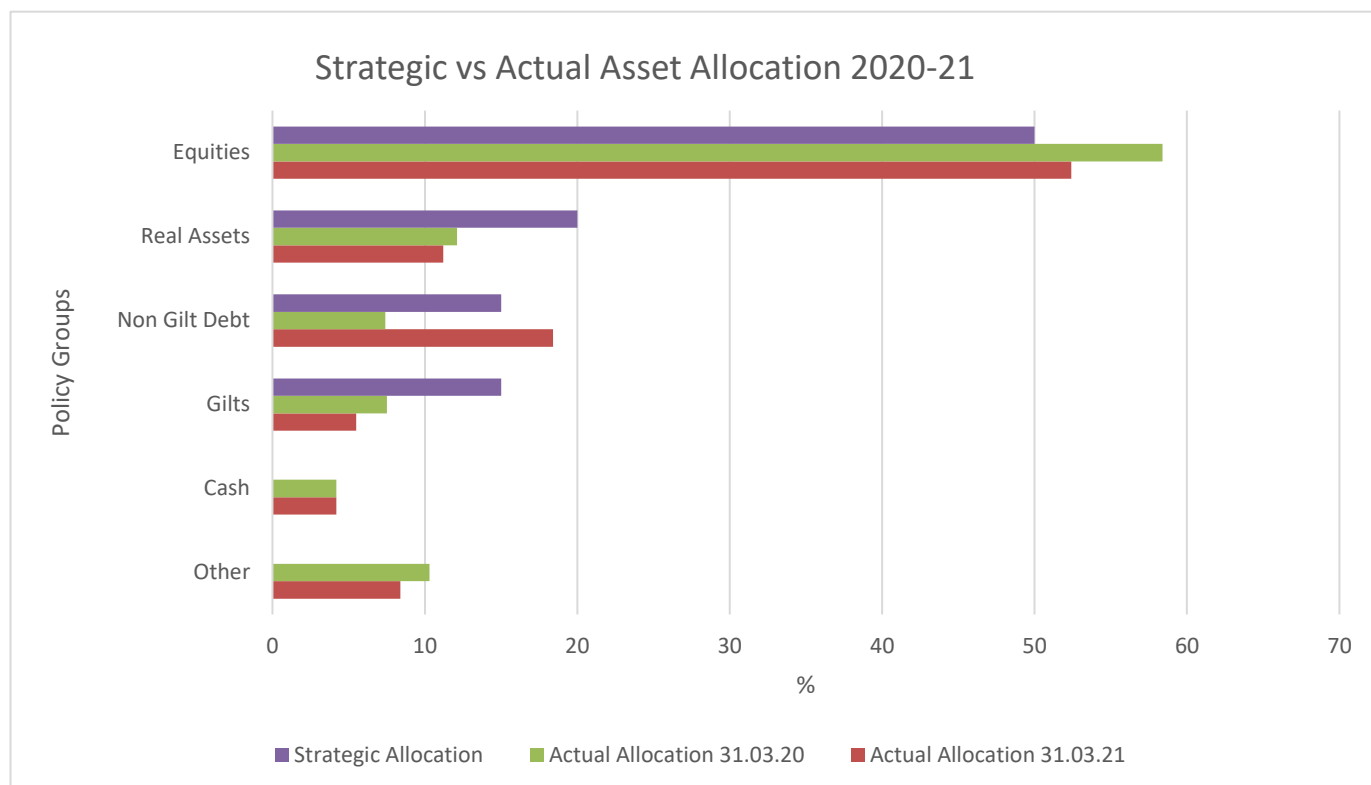
Officers at Fife and Lothian Pension Fund monitor the performance of managers with performance reports presented to each quarterly meeting of the JISP and the Pension Fund Committee.

Following the latest actuarial valuation in 2020, the Investment Strategy was revised and an updated to reflect the results. This work was presented to committee for approval at the end of June 2021, however, the performance of the fund and annual accounts reflect the strategy in place during 2021-21.

Implementation of Investment Strategy and Investment Performance

The value of the Fund's net assets increased to £3.303bn at 31 March 2021.

The allocation for the year to 31 March 2021 summarised in the following graph where it is demonstrated that relative to asset allocation, the Fund was overweight in equity, non-gilt debt and cash and underweight the other policy groups.



Throughout 2020-21, the Fund undertook some changes to the investment allocation as it continued the implementation of the agreed strategy. Over the course of the financial year the fund disinvested £495m from Equities with the proceeds being invested into Non-Gilt Debt (£395m) and retained as cash (£100m).

In addition, by working with the collaborative partners, the fund was able to participate in some Infrastructure Investment opportunities that would not have been afforded to it previously. Although modest these infrastructure investments reflect the strategy implementation.

The cash balance at 31 March 2021 was £139m (4.2% of Fund Assets). Committed amounts to Partners Group and other private managers not yet funded were £50m. This leaves an uncommitted cash balance of £86m (2.6% of Fund Assets).

The asset allocation per fund manager is detailed in the following table

Table 4 Asset Allocation per Fund Manager

| Policy Group | Manager | Current Allocation (£m) | Current Allocation (%) | Target Allocation (%) | Difference (%) |
|-----------------------------|------------------------------------|-------------------------|------------------------|-----------------------|----------------|
| Equities | | 1,731 | 52.4% | 50% | 2.4% |
| | Blackrock | 478 | | | |
| | Baillie Gifford | 463 | | | |
| | Blackrock (GLOVE mirror) | 212 | | | |
| | State Street | 578 | | | |
| Other Real Assets | | 369 | 11.2% | 20% | -8.8% |
| | CBRE Property | 228 | | | |
| | Infrastructure (Partners, various) | 141 | | | |
| Non-Gilt Debt | | 608 | 18.4% | 15% | 3.4% |
| | Janus Henderson Corporates | 97 | | | |
| | Western Asset Corporates | 98 | | | |
| | LGIM 6A Corporate Bonds | 102 | | | |
| | LGIM 5YR+ US Index-linked | 280 | | | |
| | Private Debt | 31 | | | |
| Gilts | | 181 | 5.5% | 15% | -9.1% |
| | Janus Henderson Gilts | 91 | | | |
| | Western Asset Gilts | 90 | | | |
| Balanced/Diversified | | 278 | 8.4% | 0% | 8.4% |
| | Baillie Gifford | | | | |
| Cash | | 139 | 4.2% | 0% | 4% |
| Total Fund | | 3,306 | 100% | 100% | |

Source: Northern Trust

Performance of the fund for 2020-21 resulted in a net gain in asset value of £747.065m with the fund outperforming its benchmark of 19.3% by 10.4% over a rolling 12 month period.

Longer term returns over 3,5 years and from inception demonstrate that the fund has outperformed its benchmark over longer time periods. Detailed returns are set out in the table below:

Table 5 Fund Performance

| Returns | 1 Year (2020-21) % | 3 years % per annum | 5 Years % per annum | Inception % per annum* |
|------------------|--------------------|---------------------|---------------------|------------------------|
| Fund Return | 29.7 | 10.4 | 11.6 | 8.7 |
| Benchmark Return | 19.3 | 6.1 | 7.6 | 7.8 |
| Excess Return | 10.4 | 4.3 | 4.0 | 0.9 |

Source: Northern Trust

*Inception records performance from 2003 when the custodian was appointed.

Investment Trends and Influences

The fund invests in a diversified portfolio of global assets and is therefore exposed to worldwide economic factors. Commentary was provided by advisers from Lothian Pension Fund Investment (LPFI) and can be found at Appendix 3.

Structure of Administration

The Pensions Team

The Pensions Team's core purpose is to ensure that benefits are paid accurately and on time and to provide clear information on the benefit options available to help members plan for retirement.

The team is accountable to the Pensions Committee, Pension Board, scheme employers and members. The team is committed to providing a quality service to all its stakeholders.

The administration function covers a range of activities including:-

- processing and payment of member benefits
- maintenance of our administration system, website and online Member Self Service facility
- implementation and communication of regulatory updates
- providing guidance to scheme employers
- engaging with our members
-

The team is constantly evolving to comply with regulatory requirements and to provide an effective service to our members and employers.

Administration during the COVID-19 pandemic

IT arrangements were quickly put in place at the beginning of the pandemic allowing team members to work from home, thereby ensuring a service was maintained to employers and members.

In line with The Pensions Regulator's COVID-19 guidance for trustees and public service, priority is given to :-

- paying members' benefits
- retirement processing
- bereavement services, as well as any administrative functions required to support these

The Fund has robust processes and contingency measures in place to ensure that these critical processes are carried out. The team has demonstrated its resilience as it continues to carry out, not only the TPR guidance requirements, but the entire range of administrative activities whilst homeworking.

Training and Development

The Fund provides a comprehensive training programme for the team. Development and training needs are identified to ensure that the relevant pension and systems knowledge is acquired, maintained and developed. Team members are encouraged to obtain a Certificate in Pensions Administration through the Chartered Institute of Payroll Professionals. This means that the team has a solid LGPS knowledge base.

Training is delivered in-house, at LGPS Secretariat workshops and training events organised by our software supplier, Aquila Heywood. In-house training and Aquila Heywood training sessions were delivered during the pandemic using Microsoft Office Teams.

Training sessions were also provided for the Committee and Board including

- Annual report and accounts
- McCloud and Cost Cap
- Actuarial Valuation
- Scottish LGPS Training – Administration, Governance and Investment

Administration Performance

Pension Administration Strategy

The Fund's Pension Administration Strategy Statement effectively consolidates all roles, responsibilities and expected performance targets for the team and scheme employers in one document. The primary objective of the strategy is to ensure that the team continues to provide a high quality and cost-effective pension service. The statement can be accessed at: www.fifepensionfund.org

Performance Standards

A suite of key performance indicators (KPIs) is prepared quarterly for the Committee and Pension Board. Results of performance against KPI targets in 2020-21 are shown below:-

Table 6 Performance Indicators 2020-21

| Membership Transactions | Target Days | Target | Within Target |
|------------------------------|-------------|--------|---------------|
| Correspondence | 10 | 100% | 97% |
| Refunds | 5 | 98% | 85% |
| New Members | 20 | 80% | 97% |
| Provide Ill Health Estimates | 13 | 97% | 88% |
| Provide Redundancy Estimates | 13 | 97% | 92% |
| Retirals | 5 | 95% | 98% |
| Transfer in | 10 | 92% | 86% |

The challenges resulting from the forced transformation of working practices impacted on areas of service delivery in the year. Some delays were experienced while the team prioritised the processing and payment of retirement and death benefits in accordance with guidance from The Pensions Regulator. Some other delays were caused by difficulties receiving information from stakeholders who were experiencing the same problems as everyone during the initial stages on the pandemic.

In 2020-21, the team began an exercise to review, and where necessary update, its suite of KPIs to ensure that they effectively monitor team performance. This review will continue in 2021-22.

Triennial valuation as at 31 March 2020

A key project in the year was the 2020 triennial valuation. The team worked closely with the Fund's Actuary, Hymans Robertson, to identify any data gaps that would have an impact on the robustness of the final valuation extract. A data cleansing exercise was carried out in March 2020 based on individual membership details as at 31 March 2019 and employee contributions and pensions paid in 2018-19 and 2017-18.

Again, despite the challenges brought about by the pandemic, the data extract was provided to Hymans Robertson within the scheduled deadline. Hymans Robertson reported that the data was of good quality.

The team ensured that employers were fully engaged throughout the valuation process. As referenced later in the report, the Fund Actuary explained the approach to the 2020 valuation at the 2020 Employer Forum and the results of the valuation were discussed at the February 2021 Forum. Discussions were held with scheme employers following the publication of the draft valuation to reach agreement on affordable three-year contribution plans.

The results of the valuation are available on the funds website. This can be accessed at: www.fifepensionfund.org

Statutory Annual Benefit Statements

Despite the move to homeworking, the team met the statutory deadline of 31 August for issuing annual benefit statements. Thanks to our employers for the timeliness and quality of data provided.

Use of Information Technology

Most of our employers are now using i-connect, which electronically integrates payroll systems with the pension administration software. This has resulted in further efficiencies in the creation and updating of member records and improved data quality. Member records are updated after each payroll run meaning that the year-end process is much less onerous than in previous years.

Unfortunately the restrictions imposed by the pandemic meant that the team was unable to progress with rolling out i-connect to our other employers. However, the team will resume this project when conditions permit.

Fife Council, the Fund's largest employer, moved to a new payroll system in 2020-21. The team is continuing to work closely with the Council's payroll implementation team on the data submission from the new payroll platform.

The pandemic has also impacted on the team's proposed roll out of the Member Self Service facility to all our pensioner members. The team plans to resume this project in 2021-22.

Communications

Effective communication is vital to ensure both members and employers are aware of the benefits of the LGPS and are also kept up to date with scheme changes. The Fund's website continues to be updated regularly to ensure scheme information and literature are readily available. News articles, ranging from Fund specific information to bulletins highlighting general pension issues, are available on the website.

The focus of the team's engagement with our members at the introduction of lockdown measures was, and continues to be, one of assurance. The website details the team's revised working arrangements and how members and employers can contact the team during lockdown. Specific bulletins also highlight the increase in pension scams during COVID-19, and reassurance that LGPS pensions are not impacted by stock market conditions.

The move to homeworking has impacted on how the team communicates with its members and employers as the team cannot provide the normal face to face engagement. Initial contact with the team is by email or through the Member Self Service facility. However, the team has been provided with mobile phones so that queries and requests can be followed up more efficiently and effectively and Microsoft Teams meetings are also carried out whenever possible. Telephone calls and Microsoft Office Teams provide direct contact with members and employers giving reassurance that the Team continues to provide a full pension service.

The team continues to promote the secure on-line Member Self Service facility which is accessed through the website.

The principal communications to active and deferred members are the annual benefit statement and newsletter. These communications are available on-line through the Member Self Service facility although paper copies are available on request. The team has carried out extensive communication exercises promoting the benefits of Member Self Service and highlighting annual benefits could be viewed on-line. The team continues to work with employers in promoting Member Self Service to further encourage active members to register.

The Fund is required to have a formal written communications statement which can be viewed at Appendix 2 and also at www.fifepensionfund.org

Working with Scheme Employers

The team liaised closely throughout the year with employers on technical, procedural and policy matters. This ranged from helping with individual member cases to liaising with employers undergoing workforce change exercises or transferring employees to outside contractors.

Following consideration by the Committee and Policy and Co-ordination Committee of the Council, an offer was made to eligible small employers to take advantage of revised exit arrangements. The proposal allowed employers to exit the fund on a revised cessation basis given that the Council accepted the employer's liabilities and assets as its own. Communications were issued to eligible employers as well as a virtual event held outlining the proposal. A number of employers have chosen to exit on this basis, whilst others declined the offer and remain in the fund.

A major exercise in the year involved the consolidation of all Visit Scotland LGPS obligations in the Lothian Pension Fund. A project team involving Lothian Pension Fund, the ceding Funds, Visit Scotland and actuaries for Visit Scotland and the Scottish Funds, was set up to manage the transfer of membership data and assets. Fife membership data was transferred to Lothian Pension Fund on 30 September 2020.

The 2020 Employers' Forum was held virtually on Microsoft Teams on 6 July 2020. The team reassured employers that despite its revised working arrangements, the Fund has robust measures in place to ensure monthly pensions are paid and that the team will continue to provide a pension service to employers and members. Presentations from the team covered the 2019 Scheme legislative changes and the impact of the McCloud ruling on pension benefits and administration. The Fund Actuary gave presentations on the 2020 valuation and the actuarial impact of the McCloud ruling and the COVID-19 pandemic.

The 2021 Employers' Forum was held on 3 February 2021 on Microsoft Office Teams. The Forum focused on the results of the 2020 valuation.

Collaborative Working

The team works closely with other Scottish Funds through the Scottish Pensions Liaison Group. This offers the opportunity to discuss topical pension issues and share best practice and knowledge.

Key Legislative Changes

Amendments to the 2018 Regulations

The Local Government Pension Scheme (Scotland) Regulations 2018 were amended on 6 April 2020 to include provision for entitlements to bereavement leave and pay for parents following the death of a child in accordance with The Parental Bereavement Leave and Pay (Consequential Amendments to Subordinate Legislation) Regulations 2020.

McCloud Ruling – Impact on Benefits and Administration

In July 2020, the SPPA launched a consultation exercise proposing changes to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme 'transitional protection'. The proposed changes (the 'remedy') included removing the condition that a member had to be within ten years of their normal pension age to be eligible for transitional protection plus supplementary changes to the underpin.

Fife Pension Fund participated in a technical working group of Scottish Fund pension administrators set up to examine the proposals. A collective response was submitted by the group.

The SPPA advised in March that the intent is for legislation to come into force in 2023 to provide the qualifying underpin to all members. However, the SPPA recognises that members who have retired since 2015 may not be receiving the correct level of benefits. Therefore, it intends to introduce amending legislation in 2021 to ensure that the underpin is applied correctly for retirals and leavers going forward and also for comparison calculations to be carried out for those members who have retired since 2015.

In recognition of the administrative challenges faced by the Team to implement the remedy, the Fund engaged Hymans Robertson to carry out an initial assessment on the number of members who could be impacted by the ruling and an indication of the administration resources required. Project planning is at an initial stage, but a member of the Team has been appointed to lead the project and employers have been advised of the supplementary data required.

Other Key Regulatory and Legislative Issues

Public Service Pensions Indexation

The UK Government approved the rate of increase for all public sector pension schemes and state scheme benefits at 1.7% effective from 6 April 2020. The increase was set by reference to the annual change in the Consumer Price Index measured as at September 2019.

CARE Scheme Revaluation

The Local Government Pension Scheme (Scotland) Regulations require that pension accounts built up from 1 April 2015 are revalued at the end of each scheme year.

In accordance with The Public Service Pensions Revaluation (Prices) Order 2020, the in-service revaluation of 1.7% in respect of the scheme year was applied at one second after midnight on 31 March 2020.

Ending of contracting out – GMP scheme reconciliation exercise

The introduction of the new flat rate state pension scheme from 6 April 2016 brought to an end the option to contract out of the additional state pension scheme. Whilst protections are in place for existing contracting out rights, HMRC's contracting out support services have been withdrawn. HMRC issued a closure schedule so that we could compare the contracted-out details with the information held on our pension records. This is known as scheme GMP reconciliation.

The team worked with ITM Ltd to ensure the data we hold is accurate. The rectification of pensioner records was completed in March. In total 131 members were identified as being underpaid. In respect of overpayments, the Local Government Pension Scheme (Increased Pension Entitlement) (Miscellaneous Amendments) (Scotland) Regulations 2019, provide that pensions currently in payment will remain unadjusted going forward. In total 261 members were identified as being overpaid.

2021 UK Budget

The Chancellor announced at the 2021 Budget a five-year freeze on the Lifetime Allowance. This means that the Lifetime Allowance will remain at £1,073,100.00 until April 2026.

National Fraud Initiative

The Council participates in the National Fraud Initiative. This is a counter-fraud initiative led by Audit Scotland involving mortality screening exercises.

Tell Us Once (TUO)

The Fund participates in the 'Tell Us Once' service offered by registrars when deaths are registered. The quicker notification of deaths via TUO reduces the incidences of overpayment of pensions and unnecessary bureaucracy for bereaved relatives.

Internal Dispute Resolution Cases

Any queries from members are directed, in the first instance, to the Team to resolve. If a member is still unhappy with the decision, the member can invoke the Internal Dispute Resolution Procedure (IDRP). The Fund's IDRP guide is available on the website.

A Panel has been appointed to consider appeals. To provide a mix of expertise and experience, the Panel is made up of: -

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

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

During the year to 31 March 2021, there were 13 cases.

| Reason for Dispute | Number | Decision |
|---|--------|---|
| Appealing employer's refusal to grant ill health retirement | 8 | 1 appeal successful 7 appeals pending |
| Appealing against level of ill health award | 5 | 1 appeal successful 3 appeals unsuccessful 1 appeal pending |

Equitable Life

The Fund had an historic AVC arrangement with Equitable Life. On 1st January 2020, Equitable Life policies transferred to Utmost Life and Pensions. The Fund engaged Hymans Robertson to provide recommendations on the options available to the Fund.

Hymans Robertson recommended that members' AVC funds be moved to Prudential, one of the Fund's AVC providers. The transfer of members' AVC funds from Utmost to Prudential was completed on 29 July 2020 with members' AVC monies invested in Prudential funds on 3 August 2020. A communication exercise for members was carried out giving background about the transfer, information on how their funds had been invested with Prudential and alternative options available.

Fund Update

Membership details are shown below:-

| Member Status | 2019-20 | 2020-21 |
|---------------|---------------|---------------|
| Active roles | 15,679 | 15,008 |
| Pensioners | 13,735 | 14,130 |
| Deferred role | 7,194 | 7,351 |
| Total | 36,608 | 36,489 |

The fund invested and administered pensions on behalf of 21 current and former employers during 2020-21. These include scheduled bodies, brought into the Fund by legislation, and admitted bodies which chose to join the fund. The detailed listing of employers is contained on page 57 of the Annual Report and Accounts for the Funds.

Future Years

The Pension Fund will continue to face challenges including potential volatility in the investment markets, potential movements in interest rates, legislation changes and advancements in technologies. We are in a strong position to deal with challenges and ensure that the pension fund is managed effectively and we continue to protect members' interests.

Acknowledgements

We would like to thank elected members and officers of the Council for all of their work during 2020-21. The production of the accounts is very much a team effort and again the unaudited accounts were completed before the 30 June deadline, this is of particular significance this year given that all of the team were working remotely as the Council continues to adapt following the pandemic.

Steven Grimmond
Chief Executive

Eileen Rowand MBA CPFA
Executive Director Finance and Corporate Services

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Committee

FIFE PENSION FUND ANNUAL GOVERNANCE STATEMENT

Roles and Responsibilities

Fife Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in Fife.

The main functions of the Administering Authority are the management and investment of the assets of the Fund and administration of scheme benefits. These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972 and Public Service Pensions Act 2013.

Fife Council carries out its role as Administering Authority via

- The Superannuation Fund & Pensions Committee
- Fife Pension Board
- Joint Investment Strategy Panel
- Finance & Corporate Services Directorate

Scope of Responsibility

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

In discharging this overall responsibility, the Superannuation Fund & Pensions Committee, elected members, senior officers and external representatives are responsible for implementing proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance (the Code) which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE (Chartered Institute of Public Finance & Accountancy/Society of Local Authority Chief Executives and Senior Managers) Framework "Delivering Good Governance in Local Government". The work of the Fife Council Pension Fund is governed by this Code and by regulations specific to administration of pension funds.

The Pension Governance Group is an officer's group, chaired by the Head of Finance, which meets quarterly, and its purpose is to provide assurance to the Committee and the Board through the monitoring of the requirements measured by the Pensions Regulator's Code of Practice No.14.

This statement explains how Fife Council (LGPS) has complied with the Local Code of Corporate Governance and how it meets the CIPFA code of practise

Governance Framework

The governance framework comprises the systems and processes, culture, and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs employers and members. It enables the Fund to monitor its achievements to its strategic objectives and to consider whether these objectives have led to the delivery of appropriate outcomes.

The Pension Fund compliance with its governance statement and regulatory obligation is monitored through the Pension Governance Group, the Superannuation Fund and Pensions Committee, and the Pension Board.

The administration authority places reliance on its internal controls and the monitoring of these controls is significant along with the management of the risks associated with the Fund. It cannot eliminate elements of risk; neither can it eliminate the potential risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The level of internal controls is significant in managing the level of risk and the prioritisation of risks to the achievement of the Fund's objectives, to evaluate the likelihood of the risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. In terms of the investments, the Pension Fund has appropriately qualified professional advisers to minimise its exposure.

The key elements of the governance framework within the administration authority

- The Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation of key documents including a Statement of Investment Principles and a Funding Strategy Statement, which can be viewed at www.fifepensionfund.org/Statement of Investment Principles and www.fifepensionfund.org/Funding Strategy Statement. In addition to setting out the Fund's objectives, these documents also detail the controls in place to mitigate the risks facing the Fund.
- Since April 2015, The Pension Regulator has been responsible for setting standards of governance and administration for the Local Administration Pensions Scheme, Fife Council has taken steps to fully integrate compliance with these standards through the framework
- A structured programme to ensure the Pension Board and the Superannuation Fund and Pensions Committee have the required standard of knowledge and understanding of LGPS matters
- A systematic approach to monitoring service performance by the Pensions Committee, Pensions Board and Senior Officers
- Operate within clearly established investment guidelines defined by LGPS Investment Regulations and the Funds Statement of Funds Principles (links above)
- Compliance with the CIPFA Principles for Investment Decision making and Disclosure in LGPS
- Operate within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority's rules, regulations, and guidance
- Investments held under custody by a global custodian with the fund benefitting from the custodian's extensive internal control framework
- Benchmarking of standards and costs against other pension funds using established industry processes

The key responsibilities of the systems and processes that comprise the Fund's governance arrangements sit with:

Superannuation Fund and Pensions Committee

Delegation

The function of maintaining the Fife Council Pension Fund is delegated by the Council to the Superannuation Fund and Pensions Committee. The Committee is made up of nine elected members. The Corporate Code of Governance clearly defines the roles and responsibilities for the Committee.

Terms of Reference

The Committee ensures that there is an effective governance framework relating to the management and administration of the Pension Fund. The Committee considers the policies developed to meet the objectives of the Fund and monitors progress on the delivery of the strategic objectives as defined in the Code. All reports considered by the Committee identify key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues which may arise.

Members of the Committee and the Pension Board are required to undergo specific training to meet the needs of the role and responsibility of the management of the Fund with clear delegation arrangements and protocols for communication.

The Superannuation Fund & Pensions Committee has received training covering investments, governance and an introduction to the LGPS. A training policy was agreed by the Committee which formalises the training arrangements for Committee and Pension Board members. The policy sets out the training required to ensure members have the appropriate skills to adequately carry out their roles. Induction training is provided to new Committee and Board members.

Training is delivered through several means including external seminars and events, training provided at committee meetings by external advisers and Council Officers and briefing papers.

During 2020 an assessment of training needs was carried out with members of the Committee and the Board asked to assess their current knowledge and understanding of all relevant topics. The results of the assessment are being used as a basis for arranging future training and development sessions.

Throughout 2020-21 training sessions have been provided to the Committee and the Board covering:

- Annual Report and Accounts
- McCloud and Cost Cap

- Actuarial Valuation process
- Scottish LGPS Training

In September 2020, officers from the Pension Governance Group provided induction training to new members of the Committee and Pension Board. The training covered governance arrangements, investments, LGPS regulations and administration of the scheme.

The officers' Pension Governance Group is responsible for ensuring that roles and responsibilities are allocated and documented in line with the Fund's governance Code of Practice No.14 checklist and to review the risks associated with the fund to ensure all are controlled appropriately.

As a result of the revised Committee arrangements Audit and Risk Management now report matters relating to the Pension Fund to Committee, including providing independent assurance on risk management framework, controls and annual governance processes. A full risk register is maintained by the Pension Governance Group and allows detailed risk monitoring and review.

The Committee's Terms of Reference are detailed in Fife Council's List of Committee Powers which can be viewed at: www.fifedirect.org.uk/List of Committee Powers

Frequency of Committee Meetings

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

The Fife Pension Board

The Pension Board has been established to assist Fife Council:

- In securing compliance with LGPS Regulations and other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator; and
- In ensuring the efficient and effective governance and administration of the scheme

The Board comprises 4 employee representatives appointed by Trade Unions and 4 employer representatives. It meets concurrently with the Pension Committee and considers the same agenda. In addition, the Board may meet separately both before and after the Committee meeting to consider Committee decisions giving an additional level of assurance.

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

Executive Director of Finance and Corporate Services

The Council's Executive Director Finance and Corporate Services is the Officer with responsibility to ensure proper administration of the Council's financial matters in terms of Section 95 of the Local Government (Scotland) Act 1973. The Executive Director is responsible both for the Council's role as employer and administrating authority and has responsibility to ensure appropriate controls are in place to:

- Safeguard the contributions made by employees and employers to provide funds to meet the future liabilities of the Fund's members.
- Ensure control over the investment managers charged with growing the value of the fund to meet the future liabilities; and
- Secure payment to the retired members of the Fund on time and in full.
- Provide annual benefits statements by 31 August in line with the statutory deadline
- Ensure triennial valuations are obtained

In addition, the responsibilities also include the following: -

- Financial accounting of the Fund.
- Preparation of the Pension Fund Annual Report.
- Implement the decisions of the Committee and for the day to management of the affairs of the Fund.

The Internal Audit Service Manager provides the required assurance over the adequacy of internal controls and the corporate governance arrangements operated by the Fund.

External Advisers

Hymans Robertson is the Actuary to the Fund and provides advice on Funding and actuarial valuations. From time to time Hymans Robertson are also commissioned to provide advice on investment matters, such as review of the investment strategy. Although these functions are carried out by same company, they are dealt with in different divisions in the company with clear segregation of functions.

Fife Pension Fund works in collaboration with City of Edinburgh Council for the provision of investment advice from its arms-length organisation known as Lothian Pension Fund Investment (LPFI). This is the third year of collaboration and officers have continued to participate in the Joint Investment Strategy Panel (JISP).

Investment advice and services are provided by Lothian Pension Fund Investment and three independent Investment Advisers both directly and through the JISP. The JISP meets on a quarterly basis and there is regular dialogue with officers of LPFI out with these meetings. The Investment Strategy for the Fund is approved by the Superannuation and Pension Fund Committee. Implementation of the strategy is delegated to the Head of Finance, who takes advice from the JISP and the independent advisers before assessing the risk and return and managing the implementation process.

The Fund has appointed a number of investment managers who are employed to invest in assets for the Fund.

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

Fife Council continues to support responsible ownership, and this is recognised in the Statement of Investment Principles. The Committee agreed to appoint Federated Hermes Equity Ownership Services. Federated Hermes EOS helps institutional owners around the world to meet their fiduciary responsibilities and become active owners of public companies. Federated Hermes EOS undertakes engagement with businesses on areas of concern and are actively involved in lobbying for improved governance in companies around the world. The contract for stewardship and engagement services was awarded in 2017 and is due for renewal in July 2021. The Council is currently participating in a joint procurement process with partners, Lothian Pension Fund and Falkirk Pension Fund.

Review of effectiveness

Internal Control

The Council and the Pension Fund have robust systems of internal controls in place to manage administrative, management and investment risks. The system of internal control is an ongoing process designed to identify and prioritise risks to the achievement of the Fund's policies, aims and objectives to evaluate the likelihood of those risks being realised and the likely impact.

The Fund also uses the Pensions Regulator's Public Service toolkit in addition to its own governance checklist ensuring compliance with the Pension Regulations. The Pensions Governance Group have responsibility for ensuring compliance with the Pension regulations and meet quarterly in addition to managing an annual review.

The Fund is also subject to internal audit which offers a measure of reliance on the effectiveness of controls and measurement of risk and how well this has been embedded across the organisation. It also offers a route for robust governance and improvement by continuing to implement and embed controls and risk management which will ensure full compliance with the Code's requirements.

The Council reviewed its risk management policy which is specific to the Fife Pension Fund. This is supported by the pension fund risk register. The fund specific risk register is reviewed by the Pension Governance Group and is subject to regular update. The current risk register will be shared with the Committee and the Board on an annual basis and any significant changes will be reported immediately.

Risk awareness is embedded into the investment strategy and performance management processes.

The Fund also produces a breakdown of key administration performance indicators which are included in the Pension Fund Annual Report. Administration performance reports are presented to the Committee on a quarterly basis.

Update on Significant Governance issues Previously Reported

There were no significant governance issues in 2020/21 specific to the Fife Council Pension Fund. Nor were there any significant governance issues within the Councils governance statement of relevance to the Fife Council Pension Fund.

Internal Audit Opinion

During 2020/21 the following assurance reviews were undertaken

- Follow up audit of Altair System review
- Governance with Regulations and Guidance
- Training and Resources - Pensions

Based on the audit work undertaken, it is the opinion of Internal Audit that reasonable assurance can be placed on the adequacy and effectiveness of the governance and control environment which operated in 2020/21.

Fife Council pension administration team are regularly subjected to both internal and external audit. The external auditors appointed are Audit Scotland. An audit opinion is provided separately in the Fund's Annual Report and Accounts.

Significant Governance Issues

Fife Council Audit Services has confirmed there are no significant governance issues that require to be reported as a result of work undertaken by Internal Audit in 2020/21. In addition, no breaches have been identified in 2020/21. The Fund's Breaches of the Law policy statement can be viewed at www.fifepensionfund.org

Coronavirus (COVID19) Pandemic

The governance arrangements were amended to take account of the impact of the global Coronavirus pandemic which led to changes in responsibilities, decision making structures and working arrangements from March 2020.

Focus was on business as usual activity to support citizens, communities, and businesses across Fife. Flexible and different working arrangements were developed adopting new digital technology. Security remained a priority especially with regards to the pension administration records. Processes were adapted for home working with risks assessed to ensure there was no impact on internal controls.

All Committee meetings including Superannuation and Pension Fund Committee, were cancelled following the initial lockdown in March 2020, with decisions being taken by senior officers, as set out in the Council's governance documents. All decisions taken in this manner were recorded and circulated to Group Leaders on a timely basis and posted on the Council's website. Relevant decisions taken also required to be reported to the next relevant meeting of the Committee. Since the summer recess of 2020, the Superannuation and Pension Fund Committee has taken place on a remote basis.

The impact of the pandemic is not expected to be short term, it will continue to dominate the landscape for Services. It is unlikely that the pension administration team will return to office working in the same format as before the pandemic and will continue to work from home for the immediate term.

Governance Compliance

The Local Government Pension Scheme (Scotland) Regulations 2018 require each Administering Authority to publish a Governance Compliance Statement, detailing how their governance arrangements comply with best practice guidance issued by Scottish Ministers. Details of how the Fund complies are included in the Governance Compliance Statement (page x).

Access to Information

- The Committee agenda papers and minutes can be viewed at www.fifedirect.org.uk/Committees; and
- The Fund's Annual Reports, Governance Statement and all principal documents relating to governance and risk management are available on: www.fifepensionfund.org

The above-mentioned documents are also available in hard copy on request.

Governance Arrangements – Future Developments and Improvements

There are some areas of improvement which have been identified and will be implemented over the coming year. These are:

- A series of training events complimenting committee business is being developed for the Committee and Board members
- The Fife Council List of Committee Powers will be updated to include the full Terms of Reference for the Pension Board. This will highlight the differences in roles and responsibilities between the Committee and the Board.
- The pensions governance group will look to consider greater prominence for the Committee of compliance with Code of Practice 14.
- An Independent Professional Observer is being appointed to provide support to the Committee and Pensions Board (this has been delayed due to Covid-19)
- CEM benchmarking and Cost Transparency was undertaken and reported to Committee in March 2021. This will become an annual report.

Certification

It is our opinion, considering the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance. We consider the governance and internal control environment operating during the financial year from 1 April 2020 to 31 March 2021 to provide reasonable and objective assurance. Any significant risks impacting on the council as administering authority and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified, and actions have and will be taken to avoid or mitigate the impact of any such risks.

Where areas for improvement have been identified and action plans agreed, we will ensure that they are treated as priority and progress towards implementation is reviewed through the governance structures and processes established for the council as administering authority and summarised herein. We will continue to review and enhance, as necessary, our governance arrangements.

Governance Compliance Statement

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

| | Compliance Standard | Arrangements in Place/Action Taken | Action Complies with Principle? | Reason for non-compliance |
|--|--|--|--|----------------------------------|
| | | | Yes / No / Partial | (if applicable) |
| Representation | | | | |
| 2.1 | That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. | All Committee meetings are held jointly with the Pension Board. | | |
| | These include:- | | | |
| | i) employing authorities (including non-scheme employers, e.g. admitted bodies); | Fife Council is represented. The Board has 4 employer representatives. | Yes | |
| | ii) scheme members (including deferred and pensioner scheme members); | The Board has 4 employee representatives appointed by the Trade Unions. | Yes | |
| | iii) where appropriate independent professional observers; | Appointment of an Independent Professional Observer was agreed at Committee in 2019. The appointment process and procurement is ongoing following delay due to COVID19 pandemic | Yes | |
| | and | | | |
| | iv) expert advisors (on an ad-hoc basis) | Attend routinely as required. | Yes | |
| 2.2 | That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights. | All Committee members and Board representatives receive the same access to all papers and training and are given the opportunity to contribute, challenge and debate fully in the decision making process. | Yes | |
| Selection and Role of Lay Members | | | | |
| 3.1 | That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | All new members of the Committee are required to attend induction training, which also provides them with guidance from the Council's Democratic Services Division about their role and responsibilities. | Yes | |

| | Compliance Standard | Arrangements in Place/Action Taken | Action Complies with Principle? | Reason for non-compliance |
|--|---|---|--|----------------------------------|
| | | | Yes / No / Partial | (if applicable) |
| 3.2 | That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. | Noted on every Committee agenda paper. | Yes | |
| Voting | | | | |
| 4.1 | The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | The 9 councillors have voting rights. | Yes | |
| Training/Facility Time/Expenses | | | | |
| 5.1 | That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility, time and reimbursement of expenses in respect of members involved in the decision-making process. | A training policy has been developed which requires that all new members of the Committee are offered induction training by officers. Internal training events are designed to cover a range of pension administration and investment matters are offered to Committee. Seminars and training events are offered by the Fund's external professional advisers, Fund Managers and other providers. | Yes | |
| | | Training costs and expenses incurred are met by the Pension Fund. | | |
| 5.2 | That where such a policy exists, it applies equally to all members of committees, Committees, advisory panels or any other form of secondary forum. | Applies to all members of Committee and the Board. | Yes | |

| | Compliance Standard | Arrangements in Place/Action Taken | Action Complies with Principle? | Reason for non-compliance |
|-----|---|---|--|----------------------------------|
| | | | Yes / No / Partial | (if applicable) |
| 5.3 | That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. | <p>A training policy was developed and approved by Committee to incorporate full training requirements for a member to ensure they have the appropriate skills to fulfil their role. Training is offered on an ad hoc basis as needs are identified and also as appropriate, the policy now recommends a minimum of 2 days per annum. Training is identified from a variety of sources. Members are required to advise of training attended. Monitoring of activities will be undertaken by the Committee</p> <p>.....</p> <p>A Training Needs Assessment (TNA) has been developed and issued during the year to allow members of the Committee and Board to assess their individual training needs. A series of training events is being developed to be scheduled in advance of Committee meetings and will provide training relevant to current or future issues for the Pension Fund.</p> | Partial | |

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

| | Compliance Standard | Arrangements in Place/Action Taken | Action Complies with Principle? | Reason for non-compliance |
|------------------|--|--|--|----------------------------------|
| | | | Yes / No / Partial | (if applicable) |
| Publicity | | | | |
| 9.1 | That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | The Annual Governance Statement and Governance Compliance statement are available on the Council's Pensions website at www.fifepensionfund.org and are included in the Pension Fund Annual Report. Council governance documents are available on the Council website. | Yes | |

Steven Grimmond
Chief Executive

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Committee

ACTUARIAL STATEMENT

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

Description of Funding Policy

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

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 18 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% chance that the Fund will return to full funding over 18 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £2,536 million, were sufficient to meet 97% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2020 valuation was £72 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report.

Method

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

Assumptions

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

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

| Financial Assumptions | 31 March 2020 |
|-----------------------------------|---------------|
| Discount rate | 3.1% |
| Salary increase assumption | 2.2% |
| Benefit increase assumption (CPI) | 1.7% |

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

| | Males | Females |
|--------------------|------------|------------|
| Current Pensioners | 20.3 years | 23.1 years |
| Future Pensioners* | 21.6 years | 25.1 years |

* Currently aged 45.

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

Experience over the period since 31 March 2020

Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but have recovered strongly in 2020/21. Although the value placed of the obligations will also have increased due to changes in underlying market conditions, the funding level of the Fund as at 31 March 2021 is likely to be significantly improved compared to that reported as at 31 March 2020.

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

Robert Bilton FFA

For and on behalf of Hymans Robertson LLP
27 May 2021

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

REMUNERATION REPORT

The Fife Pension Fund does not directly employ any staff. We have therefore not included a remuneration report within the Annual Report.

All staff are employed by Fife Council, and their costs reimbursed by the Fife Pension Fund.

The members of the Superannuation Fund and Pensions Committee and Pension Board are also remunerated by Fife Council or Admitted or Scheduled Bodies.

Details of Councillor and Senior Employee remuneration can be found in the accounts of Fife Council on the Council's website [www.fife.gov.uk/Annual Accounts](http://www.fife.gov.uk/Annual%20Accounts)

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

The Administering Authority's Responsibilities

The Authority is required: -

- to make arrangements for the proper administration of the financial affairs of the Fife Pension Fund and to secure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Executive Director Finance and Corporate Services;
- to manage the affairs of the Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets;
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003) as amended by the Coronavirus (Scotland) Act 2020 ; and
- to consider the unaudited accounts no later than 31 August and to approve the audited accounts for signing by 7 December 2021.

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

Signed on behalf of Fife Council

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Committee

Responsibilities of Executive Director Finance and Corporate Services

The Executive Director Finance and Corporate Services is responsible for the preparation of the Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the statement of accounts, the Executive Director Finance and Corporate Services has:-

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

The Executive Director Finance and Corporate Services has also: -

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

I certify that the financial statements give a true and fair view of the financial position of the Fife Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2021.

Eileen Rowand
Executive Director Finance and Corporate Services

Fife Pension Fund Accounts

Fund Account

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

| 2019-20 | | | 2020-21 |
|------------------|---|-------|------------------|
| £m | | Notes | £m |
| | Dealings with members, employers and others directly involved in the fund | | |
| (100.340) | Contributions Receivable | 6 | (105.763) |
| (2.454) | Transfers in from other pension funds | | (2.335) |
| (102.794) | | | (108.099) |
| 87.700 | Benefits Payable | 7 | 86.723 |
| 2.675 | Payments to and on Account of Leavers | 8 | 7.572 |
| 90.375 | | | 94.295 |
| (12.419) | Net (additions)/withdrawals from dealings with members | | (13.803) |
| 16.087 | Management Expenses | 9 | 17.353 |
| 3.668 | Net (additions)/withdrawals including fund management expenses | | 3.550 |
| | Returns on investments | | |
| (30.070) | Investment Income | 10 | (24.222) |
| 0.151 | Taxes on income | | 0.165 |
| 102.175 | (Profit) and losses on disposal of investments and changes in the market value of investments | 11a | (747.065) |
| 72.255 | Net return on investments | | (771.122) |
| 75.924 | Net (increase)/decrease in the net assets available for benefits during the year | | (767.572) |
| 2,611.511 | Opening net assets of the scheme at 1 April | | 2,535.587 |
| (75.924) | | | 767.572 |
| 2,535.587 | Closing net assets of the scheme at 31 March | | 3,303.159 |

Fife Pension Fund Accounts

Net Asset Statement

The Net Asset Statement sets out the value, as at the statement date, of all assets and current liabilities of the Fund. The net assets of the Fund (assets less current liabilities) represents the funds available to provide for pension benefits as at 31 March 2021.

| 2019-20 | | | 2020-21 |
|------------------|---|-------|------------------|
| £m | | Notes | £m |
| | Investments | | |
| 2,541.470 | Investment Assets | 11b | 3,306.884 |
| (2.431) | Investment Liabilities | 11b | (0.456) |
| 2,539.039 | Total net investments | | 3,306.428 |
| | Current Assets | | |
| 1.774 | Contributions due from Employers | | 3.793 |
| 1.893 | Cash Balances | | 0.758 |
| 0.828 | Debtors | 17 | 0.323 |
| 4.495 | | | 4.873 |
| | Current Liabilities | | |
| (3.992) | Unpaid Benefits | | (3.694) |
| (3.955) | Other Current Liabilities | | (4.447) |
| (7.947) | | | (8.142) |
| (3.452) | Net Current Assets & Liabilities | | (3.269) |
| 2,535.587 | Net Assets of the fund available to fund benefits at the end of the year | | 3,303.160 |

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the year end. The actuarial present value of promised retirement benefits is disclosed at Note 16.

The unaudited financial statements were issued on 30 June 2021 and the audited accounts were authorised for issue on 7 December 2021.

Eileen Rowand
Executive Director Finance and Corporate Services

Notes to the Fife Pension Fund Accounts for the year ended 31 March 2021

1 Description of Fund

The Fife Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Fife Council. The council is the reporting entity for this fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Fife Pension Fund Annual Report 2020-21 and the underlying statutory powers underpinning the scheme.

General

The scheme is governed by the Public Services Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the local Government Pension Scheme (Scotland) Regulations 2018 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) (Scotland) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015
- the Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2010 (amended by SSI 2016/74)

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

The fund is overseen by the Superannuation Fund and Pensions Committee which is a committee of Fife Council.

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. The fund is also open to elected members of the Council.

Organisations participating in the fund include the following:

- Scheduled bodies which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

| Fife Council Pension Fund | 31 March 2020 | 31 March 2021 |
|-------------------------------------|---------------|---------------|
| Number of employers | 25 | 21 |
| Number of employee in scheme | | |
| Fife Council | 13,367 | 13,045 |
| Other employers | 2,312 | 1,963 |
| Total | 15,679 | 15,008 |
| Number of pensioners | | |
| Fife Council | 12,560 | 12,884 |
| Other employers | 1,175 | 1,246 |
| Total | 13,735 | 14,130 |
| Deferred Members | 7,194 | 7,351 |
| Total number of members | 36,608 | 36,489 |

1 Description of Fund (continued)

Changes in Membership

in 2020, Fife Pension Fund offered Community Admitted Bodies the opportunity to cease participation in the pension fund with the exit payment being assessed on an ongoing basis as opposed to a gilts cessation basis. The offer was on the basis that Fife Council accepts the small employers liabilities and assets as its own.

Three employers exited the fund on this basis:

- Fife Women's Aid on 30 September 2020
- St Andrew's Botanic Gardens Trust on 31 October 2020
- Fife Historic Buildings Trust on 10 December 2020

Visit Scotland membership was transferred to Lothian Pension Fund on 30 September 2020.

Funding

Benefits are funded by contributions and investment earning. Contributions are made by active members of the fund in accordance with the Local Government Scheme Regulations (Scotland) 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations.

Benefits

Prior to 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

| | Service pre 1 April 2009 | Service to 31 March 2015 | Service post 1 April 2015 |
|----------|--|--|--|
| Pension | Each year worked is worth 1/80 x final pensionable salary | Each year worked is worth 1/60 x final pensionable salary | Each year worked is worth 1/49 x career average salary |
| Lump Sum | Automatic lump sum of 3 x pension. In addition part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up, | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up, | 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, |

2 Basis of Preparation

The statement of the accounts summarises the fund's transactions for the 2020-21 financial year and its position at the year end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on International Accounting Standard (IAS) 19 basis, is disclosed at Note 16 of these accounts.

3 Statement of Accounting Policies

a) General

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21, (the Code) which incorporates the International Financial Reporting Standards, in particular International Accounting Standard (IAS) 26 Retirement Benefit Plans, the accounting standard applicable for Pension Funds. The Code also adopts parts of the Financial Reports of Pension Schemes - Statement of Recommended Practice 2015, such as the format of the accounting statements.

b) Accruals

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

c) Valuation of Investments

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

d) Foreign Currency Transactions

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

e) Contributions and Benefits

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

f) Transfer Values

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

g) Investment Income

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

h) Administrative and Investment Management Expenses

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

i) Cash and Cash Equivalents

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

j) VAT

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

k) Taxation

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

l) Financial Assets

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

3 Statement of Accounting Policies (continued)

m) Financial Liabilities

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

n) Actuarial Present Value of Promised Retirement Benefits

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

As permitted under 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 16).

o) Additional Voluntary Contributions (AVC)

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

Fife Council's current AVC providers are Standard Life and Prudential. Former provider Clerical Medical no longer accepts new admissions.

Another historic provider, Equitable Life, transferred its business to Utmost on 1 January 2020. Having taken professional advice from Hymans Robertson, Fife Pension Fund decided to transfer AVC funds with Utmost to Prudential. The transfer of members' AVC funds from Utmost to Prudential was completed on 29 July 2020 with members' AVC monies invested in Prudential funds on 3 August 2020.

AVC's are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 but are disclosed as a note only (Note 18)

p) Derivatives

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

Derivative contract assets are fair value at bid prices and liabilities fair value at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from, or owed, to the broker are the amounts outstanding in respect of the initial margin and variation margin.

q) Fair value measurement

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

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – unobservable inputs for the asset or liability.

r) Prior Year Adjustments

Prior year adjustments arise as a result of a change in accounting policy, where a material error was made or it is agreed between auditors and the Fife Pension Fund to change accounting estimation techniques.

Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts.

4 Critical Judgements in Applying Accounting Policies

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

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 16.

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

5 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

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

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|--|
| Actuarial present value of promised retirement benefits | Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The fund engages an Actuary to provide expert advice on these assumptions. | The impact on net liabilities of changes to the principal assumptions is shown in Note 16 |
| Financial Assets and Liabilities measured at fair value | When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using recognised valuation techniques but as these investments are not publically listed there is a degree of estimation involved in the valuation. | There is significant level of assumption in the valuation for Level 3 assets. This is explained in Note 13 |
| Investment expenses deducted from capital | Quantification of investment management expenses deducted from the capital value of investments involves asking the relevant managers for information and only some of this information can be independently verified. Where the charges relate to an investment as a whole, an estimate is made of the costs applicable to the holding owned by Fife Council Pension Fund. | There is a risk that the cost of investment management expenses deducted from capital may be under or overstated. However, as the costs are included in the fund account by adjusting the change in market value of investments, any inaccuracy in the cost estimate will not change the reported net change in the fund for the year. |

6 Contributions Receivable

By Category

| 2019-20 | | 2020-21 |
|------------------|---------------------------------------|------------------|
| £m | | £m |
| (19.418) | Employees' Contributions | (20.440) |
| | Employers' Contributions | |
| (78.790) | Normal contributions | (82.480) |
| (2.132) | Augmentation contributions | (2.843) |
| (80.922) | Total employers' contributions | (85.323) |
| (100.340) | | (105.763) |

By authority

| 2019-20 | | 2020-21 |
|------------------|------------------|------------------|
| £m | | £m |
| (85.599) | Fife Council | (90.405) |
| (6.450) | Scheduled bodies | (7.060) |
| (8.291) | Admitted bodies | (8.298) |
| (100.340) | | (105.763) |

7 Benefits Payable

By Category

| 2019-20 | | 2020-21 |
|---------------|------------------------------|---------------|
| £m | | £m |
| 66.265 | Pensions | 69.499 |
| 19.072 | Lump sum retirement benefits | 14.341 |
| 2.363 | Lump sum death benefits | 2.883 |
| 87.700 | | 86.723 |

By authority

| 2019-20 | | 2020-21 |
|---------------|------------------|---------------|
| £m | | £m |
| 78.709 | Fife Council | 78.579 |
| 3.835 | Scheduled bodies | 3.457 |
| 5.155 | Admitted bodies | 4.687 |
| 87.700 | | 86.723 |

8 Payments to and on Account of Leavers

| 2019-20 | | 2020-21 |
|--------------|------------------------------------|--------------|
| £m | | £m |
| 0.230 | Refunds to members leaving service | 0.195 |
| 0.003 | State Scheme Premiums | 0.001 |
| | Transfers to other Schemes | |
| 2.442 | Individuals | 3.535 |
| 0.000 | Visit Scotland | 3.841 |
| 2.675 | | 7.572 |

9 Management Expenses

| 2019-20 | | 2020-21 |
|---------------|--------------------------------|---------------|
| £m | | £m |
| 1.926 | Administrative costs | 1.872 |
| 13.512 | Investment management expenses | 14.594 |
| 0.649 | Oversight and governance costs | 0.887 |
| 16.087 | | 17.353 |

Included in the oversight and governance costs is the external audit fee of £0.038m (£0.036m 2019-20)

9a Investment Management Expenses

| 2020-21 | Management Fees | Performance Related Fees | Transaction Costs | Total |
|-------------------------------|-----------------|--------------------------|-------------------|---------------|
| | £m | £m | £m | £m |
| Pooled Investments | 2.511 | 0.000 | 1.875 | 4.386 |
| Equities | 2.829 | 0.000 | 0.030 | 2.859 |
| Bonds | 0.440 | 0.479 | 0.153 | 1.072 |
| Pooled Property Investments | 1.765 | 0.000 | 0.339 | 2.104 |
| Private Equity/Infrastructure | 1.883 | 1.920 | 0.187 | 3.989 |
| Cash | 0.000 | 0.000 | 0.000 | 0.000 |
| | 9.427 | 2.399 | 2.584 | 14.410 |
| Custody Fees | | | | 0.184 |
| | | | | 14.594 |

| 2019-20 | Management Fees | Performance Related Fees | Transaction Costs | Total |
|-------------------------------|-----------------|--------------------------|-------------------|---------------|
| | £m | £m | £m | £m |
| Pooled Investments | 2.150 | 0.000 | 2.247 | 4.397 |
| Equities | 2.106 | 0.000 | 0.127 | 2.233 |
| Bonds | 0.619 | 1.387 | 0.045 | 2.051 |
| Pooled Property Investments | 1.848 | 0.000 | 0.859 | 2.707 |
| Private Equity/Infrastructure | 1.245 | 0.000 | 0.261 | 1.505 |
| Cash | 0.135 | 0.000 | 0.000 | 0.135 |
| | 8.102 | 1.387 | 3.539 | 13.028 |
| Custody Fees | | | | 0.484 |
| | | | | 13.512 |

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

Fife Pension Fund complies with CIPFA guidance in terms of accounting for and disclosing transaction costs. Details are disclosed in Notes 9 and 9a of the accounts. Transaction costs for 2020-21 are reported as £2.584m (2019-20 £3.539m). Continued participation in the Cost Transparency Initiative and completion of templates has enhanced disclosure of costs.

10 Investment Income

| 2019-20 | | 2020-21 |
|-----------------|--|-----------------|
| £m | | £m |
| (5.919) | Fixed interest securities | (5.692) |
| (5.962) | Equity dividends | (6.916) |
| (12.388) | Pooled property investments | (7.137) |
| (2.194) | Pooled investments-unit trusts and other managed funds | (1.719) |
| (1.490) | Private equity | (2.437) |
| (0.837) | Interest on cash deposits | (0.111) |
| (1.282) | Securities Lending | (0.210) |
| 0.000 | Broker commissions recaptured | 0.000 |
| (30.070) | | (24.222) |

11a Reconciliation of Movements in Investments and Derivatives

Purchases and sales of derivatives are recognised as follows:

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

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

Forward currency contracts - forward foreign currency exchange contracts settled during the period are reported on a net contract basis as either a purchase or a sale.

| 2020-21 | Value at 1 April 2020 | Purchases (at cost) and Derivative Payments | Sales Proceeds and Derivative Receipts | Change in Value | Value at 31 March 2021 |
|---|-----------------------|---|--|-----------------|------------------------|
| | £m | £m | £m | £m | £m |
| Fixed interest securities | 270.064 | 47.668 | (42.940) | (2.145) | 272.647 |
| Equities | 725.091 | 197.012 | (687.564) | 435.751 | 670.289 |
| Pooled Investments | 1,110.992 | 396.729 | (1.914) | 314.215 | 1,820.022 |
| Pooled Property Investments | 217.098 | 8.204 | (6.122) | (13.686) | 205.494 |
| Private Equity/Infrastructure | 104.249 | 68.154 | (16.469) | 4.880 | 160.813 |
| | 2,427.493 | 717.767 | (755.009) | 739.014 | 3,129.266 |
| Derivative contracts: | | | | | |
| Futures | (0.165) | 4.675 | (5.663) | 1.148 | (0.006) |
| Purchased/written options | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Forward currency contracts | (0.374) | 0.717 | (0.826) | 0.565 | 0.083 |
| | 2,426.954 | 723.159 | (761.498) | 740.727 | 3,129.342 |
| Other investment balances | 0.166 | | | (0.569) | 0.006 |
| Cash deposits | 110.668 | | | (2.927) | 174.697 |
| Amount receivable for sales of investments | 0.244 | | | 0.000 | 0.000 |
| Investment income due | 2.695 | | | 0.000 | 2.740 |
| Amount receivable for pending spot FX | (0.002) | | | 1.002 | 0.000 |
| Amount payable for purchases of investments | (1.685) | | | (0.024) | (0.356) |
| Total Investment Assets | 2,539.039 | | | 738.209 | 3,306.428 |

Trading gains and market value movements accounted for £747.065m per the Fund Account. This is different to the £738.209m reported above. The reason for this difference is £8.856m of indirect management expenses which have been included within note 9 to the accounts

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

| 2019-20 | Value at 1 April 2019 | Purchases (at cost) and Derivative Payments | Sales Proceeds and Derivative Receipts | Change in Value | Value at 31 March 2020 |
|---|-----------------------|---|--|------------------|------------------------|
| | £m | £m | £m | £m | £m |
| Fixed interest securities | 260.380 | 40.703 | (39.300) | 8.281 | 270.064 |
| Equities | 644.113 | 248.532 | (238.393) | 70.839 | 725.091 |
| Pooled Investments | 1,286.292 | 42.150 | (37.408) | (180.041) | 1,110.992 |
| Pooled Property Investments | 229.789 | 12.492 | (9.188) | (15.995) | 217.098 |
| Private Equity/Infrastructure | 50.451 | 48.298 | (3.575) | 9.074 | 104.249 |
| | 2,471.024 | 392.174 | (327.864) | (107.841) | 2,427.493 |
| Derivative contracts: | | | | | |
| Futures | (0.155) | 9.366 | (7.786) | (1.590) | (0.165) |
| Purchased/written options | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Forward currency contracts | 0.057 | 1.867 | (1.948) | (0.351) | (0.374) |
| | 2,470.927 | 403.407 | (337.598) | (109.783) | 2,426.954 |
| Other investment balances | 0.155 | | | 0.801 | 0.166 |
| Cash deposits | 139.572 | | | 0.169 | 110.668 |
| Amount receivable for sales of investments | 0.000 | | | 0.000 | 0.244 |
| Investment income due | 2.400 | | | 0.000 | 2.695 |
| Amount receivable for pending spot FX | (0.000) | | | (0.022) | (0.002) |
| Amount payable for purchases of investments | (0.601) | | | 0.031 | (1.685) |
| Total Investment Assets | 2,612.452 | | | (108.804) | 2,539.039 |

Trading gains and market value movements accounted for £102.175m per the Fund Account. This is different to the £108.804m reported above. The reason for this difference is £6.630m of indirect management expenses which have been included within note 9 to the accounts

11b Analysis of Investments

| 2019-20 | | 2020-21 |
|------------------|--|------------------|
| £m | | £m |
| | Investment assets | |
| 270.064 | Bonds | 272.647 |
| 725.091 | Equities | 670.289 |
| | Pooled Investments | |
| 91.234 | Fixed income unit trust | 479.009 |
| 1,019.758 | Equity unit trust | 1,341.013 |
| 217.098 | Pooled property investments | 205.494 |
| 104.249 | Private equity/Infrastructure | 160.813 |
| 0.000 | Property | 0.000 |
| 0.000 | Diversified Alternatives | 0.000 |
| | Derivative contracts: | |
| 0.187 | Futures | 0.094 |
| 0.000 | Purchased/written options | 0.000 |
| 0.016 | Forward currency contracts | 0.083 |
| 0.000 | Swaps | 0.000 |
| 110.668 | Cash deposits | 174.697 |
| 2.695 | Investment Income due | 2.740 |
| 0.244 | Amounts receivable for sales | 0.000 |
| 0.000 | Amounts receivable for pending spot FX | 0.000 |
| 0.166 | Other Investment assets | 0.006 |
| 2,541.470 | | 3,306.884 |
| | Investment liabilities | |
| | Derivative contracts: | |
| (0.352) | Futures | (0.100) |
| 0.000 | Purchased/written options | 0.000 |
| (0.391) | Forward currency contracts | 0.000 |
| 0.000 | Swaps | 0.000 |
| (1.685) | Amounts payable for purchases | (0.356) |
| (0.002) | Amounts payable for pending spot FX | 0.000 |
| 0.000 | Other Investment liabilities | 0.000 |
| (2.431) | | (0.456) |
| 2,539.039 | Total | 3,306.428 |

11c Investments Analysed by Fund Manager

| Market Value 31 March 2020 | | | Market Value 31 March 2021 | |
|-------------------------------|---------------|--|-------------------------------|---------------|
| £m | % | | £m | % |
| | | Fund Mangers | | |
| 785.697 | 30.94 | Baillie Gifford | 741.212 | 22.42 |
| 183.114 | 7.21 | Henderson Global Investors | 187.923 | 5.68 |
| 181.882 | 7.16 | Western Asset Management | 188.462 | 5.70 |
| 557.255 | 21.95 | Blackrock Investment Management (UK) Ltd | 690.378 | 20.88 |
| 401.347 | 15.81 | State Street Global Advisors | 577.410 | 17.46 |
| 60.152 | 2.37 | Partners Group | 54.269 | 1.64 |
| 23.314 | 0.92 | Other Infrastructure Managers | 86.544 | 2.62 |
| 234.359 | 9.23 | CBRE Global Investors | 227.403 | 6.88 |
| 0.000 | 0.00 | LGIM 6A Corporate Bond Fund | 101.841 | 3.08 |
| 0.000 | 0.00 | LGIM Over 5 Year US Index-Link | 280.087 | 8.47 |
| 21.987 | 0.87 | Private Debt | 31.369 | 0.95 |
| 2,449.105 | 96.46 | | 3,166.899 | 95.78 |
| | | Money Market Funds | | |
| 89.93 | 3.54 | Northern Trust Money Market Fund | 139.529 | 4.22 |
| 2,539.039 | 100.00 | | 3,306.428 | 100.00 |

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

| Market Value 31 March 2020 | | | Market Value 31 March 2021 | |
|-------------------------------|-------|---|-------------------------------|-------|
| £m | % | | £m | % |
| 376.094 | 14.81 | Aquila Life UK Equity Index Fund, managed by Blackrock Investment Management (UK) Ltd | 478.154 | 14.46 |
| 235.493 | 9.27 | Baillie Gifford Diversified Growth Fund, managed by Baillie Gifford | 278.468 | 8.42 |
| 401.347 | 15.81 | MPF Fundamental Index Global Equity Fund, managed by State Street Global Advisors | 577.410 | 17.46 |
| | | CG - > 5Yr US Inflation-Linked Index | 280.087 | 8.47 |

11d Stock Lending

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year-end, the value on loan was £100.628m (31 March 2020 £80.243m). This stock-lending programme continues to be recognised in the fund's financial statements. Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at a market value of £104.328m (31 March 2020 £85.906m) representing 103.7% of stock lent. Collateral consists of acceptable securities and government debt.

| 2019-20 | | 2020-21 |
|---------------|----------|----------------|
| £m | | £m |
| 49.226 | Bonds | 63.135 |
| 31.017 | Equities | 37.493 |
| 80.243 | | 100.628 |

12 Analysis of Derivatives

Objectives and policies for holding derivatives

A derivative is a financial instrument that derives its value from another, underlying financial instrument or asset, which could be an equity, bond, an index, another derivative or a real asset.

Fund managers may use derivatives to gain exposure to an asset more efficiently than holding the underlying asset. They are used to manage risk; either to assume risk, to hedge risk or to reduce risk. The use of derivatives is managed in line with the investment management agreements in place between the fund and the various investment managers.

Western Asset Management used futures as part of their fixed interest trading strategy to lower costs and improve efficiency, particularly during periods of higher uncertainty, such as around elections and referenda.

Futures

Outstanding exchange traded futures contracts are as follows:

| 2020-21 | Expires | Economic Exposure | Assets | Liabilities |
|-----------------------------|----------|-------------------|--------------|----------------|
| | | | £m | £m |
| Fixed Income Futures | | | | |
| Overseas fixed interest | one year | (1.824) | 0.094 | |
| UK fixed interest | one year | 1.914 | | (0.020) |
| Overseas fixed interest | one year | 1.686 | | (0.079) |
| | | 1.776 | 0.094 | (0.100) |

| 2019-20 | Expires | Economic Exposure | Assets | Liabilities |
|-----------------------------|----------|-------------------|--------------|----------------|
| | | | £m | £m |
| Fixed Income Futures | | | | |
| Overseas fixed interest | one year | 2.152 | 0.178 | |
| UK fixed interest | one year | (0.409) | 0.009 | |
| Overseas fixed interest | one year | (3.847) | | (0.352) |
| | | (2.104) | 0.187 | (0.352) |

The economic exposure represents the notional value of bonds purchased under the futures contract on an absolute basis, and is therefore subject to market movements

Open forward currency contracts

| Settlements | Currency Bought | Local Value | Currency Sold | Local Value | Assets | Liabilities |
|---|-----------------|-------------|---------------|-------------|--------------|----------------|
| | | £m | | £m | £m | £m |
| One to six months | GBP | 4.858 | EUR | (6.660) | 0.031 | 0.000 |
| One to six months | GBP | 1.645 | USD | (1.871) | 0.049 | 0.000 |
| One to six months | USD | 0.643 | GBP | (0.464) | 0.002 | 0.000 |
| Open forward currency contracts at 31 March 2021 | | | | | 0.083 | 0.000 |
| Net forward currency contracts at 31 March 2021 | | | | | | 0.083 |
| Prior Year Comparative | | | | | | |
| Open forward currency contracts at 31 March 2020 | | | | | 0.016 | (0.391) |
| Net forward currency contracts at 31 March 2020 | | | | | | (0.374) |

13 Fair Value - Basis of Valuation

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

| Description of asset | Valuation hierarchy | Basis of Valuation | Observable and unobservable inputs | Key sensitivities affecting the valuation provided |
|--|---------------------|---|--|--|
| Market quoted investments | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Fixed interest securities are valued at a market value based on current yields | Not required | Not required |
| Futures and options in UK bonds | Level 1 | Published exchange prices at the year-end | Not required | Not required |
| Exchange traded pooled investments | Level 1 | Closing bid value on published exchanges | Not required | Not required |
| Unquoted bonds | Level 2 | Average of broker prices | Evaluated price feeds | Not required |
| Forward foreign exchange derivatives | Level 2 | Market forward exchange rates at the year-end | Exchange rate risk | Not required |
| Overseas bond options | Level 2 | Option pricing model | Annualised volatility of counterparty credit risk | Not required |
| Pooled investments-overseas unit trusts and property funds | Level 2 | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV-based pricing set on a forward pricing basis | Not required |
| Pooled investments - hedge funds | Level 3 | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV-based pricing set on a forward pricing basis | Valuation could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts |
| Freehold and leasehold properties | Level 3 | Valued at fair-value at the year-end using the investment method of valuation | Existing lease terms and rentals; Independent market research; nature of tenancies; covenant strength for existing tenants; assumed vacancy levels; estimated rental growth; discount rate | Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices |

13 Fair Value - Basis of Valuation (continued)

13a Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

For 2019-20 the outbreak of the Coronavirus pandemic impacted on market activity across many sectors. At the valuation date less weight could be attached to previous market evidence for comparison purposes, therefore valuers were faced with unprecedented circumstances on which to base judgements. Valuations were reported based on "material valuation uncertainty" as per the VP3 And VPGA 10 of the RICS Red Book Global, indicating less certainty and a higher degree of caution were attached to the valuation of the Funds' investment property assets than normal.

During 2020-21 the "material valuation uncertainty" clauses were lifted by RICS in recognition of recovery of the markets and evidence on which to base judgements.

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

13a Fair Value Hierarchy (continued)

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

| Values at 31 March 2021 | Quoted Market Price Level 1 £m | Using observable inputs Level 2 £m | With significant unobservable inputs Level 3 £m | Total £m |
|---------------------------------|-----------------------------------|---------------------------------------|--|------------------|
| Investment assets at fair value | 1,909.423 | 1,085.017 | 311.988 | 3,306.428 |
| | 1,909.423 | 1,085.017 | 311.988 | 3,306.428 |

| Values at 31 March 2020 | Quoted Market Price Level 1 £m | Using observable inputs Level 2 £m | With significant unobservable inputs Level 3 £m | Total £m |
|---------------------------------|-----------------------------------|---------------------------------------|--|------------------|
| Investment assets at fair value | 1,623.024 | 646.374 | 269.642 | 2,539.039 |
| | 1,623.024 | 646.374 | 269.642 | 2,539.039 |

13b Reconciliation of Fair Value Measurements within Level 3

| | Market value 1 April 2020 £m | Transfers into Level 3 £m | Transfers out of Level 3 £m | Purchases during the year and derivative payments £m | Sales during the year and derivative receipts £m | Unrealised gains/ (losses) £m | Realised gains/ (losses) £m | Market value 31 March 2021 £m |
|--------------------------|---------------------------------|------------------------------|--------------------------------|---|---|----------------------------------|--------------------------------|----------------------------------|
| Overseas Property Funds | 2.848 | | | | | (2.840) | | 0.007 |
| Overseas Venture Capital | 88.654 | | | 21.939 | (14.674) | (2.028) | 1.425 | 95.315 |
| UK Fixed Income | | | | | | | | 0.000 |
| UK Property Funds | 155.068 | | | 5.173 | (5.561) | (9.746) | (2.530) | 142.404 |
| Overseas Equities | 0.653 | | (0.181) | 0.920 | | 0.390 | | 1.782 |
| UK Equities | 6.824 | | | | | 0.157 | | 6.981 |
| UK Venture Capital | 15.595 | | | 46.215 | (1.796) | 5.483 | | 65.498 |
| | 269.642 | 0.000 | (0.181) | 74.246 | (22.030) | (8.584) | (1.105) | 311.988 |

14 Classification of Financial Instruments

| 31 March 2020 | | | | 31 March 2021 | | |
|--|--|---|-------------------------------|--|--|---|
| Fair value through profit and loss £m | Assets carried at Amortised Cost £m | Financial liabilities at amortised cost £m | | Fair value through profit and loss £m | Assets carried at Amortised Cost £m | Financial liabilities at amortised cost £m |
| | | | Financial assets | | | |
| 270.064 | | | Fixed Interest Securities | 272.647 | | |
| 725.091 | | | Equities | 670.289 | | |
| 1,110.992 | | | Pooled Investments | 1,820.022 | | |
| 217.098 | | | Pooled Property Investments | 205.494 | | |
| 104.249 | | | Private Equity-Infrastructure | 160.813 | | |
| 0.203 | | | Derivative contracts | 0.176 | | |
| | 110.668 | | Cash | | 174.697 | |
| 0.166 | 2.695 | | Other Investment balances | 0.006 | 2.740 | |
| | 0.244 | | Debtors | | 0.000 | |
| 2,427.862 | 113.608 | 0.000 | | 3,129.448 | 177.436 | 0.000 |
| | | | Financial Liabilities | | | |
| | | (0.743) | Derivative contracts | | | (0.100) |
| | | (0.002) | Other Investment balances | | | 0.000 |
| | | (1.685) | Creditors | | | (0.356) |
| 0.000 | 0.000 | (2.431) | | 0.000 | 0.000 | (0.456) |
| 2,427.862 | 113.608 | (2.431) | Total | 3,129.448 | 177.436 | (0.456) |
| | | | | | | |
| | 2,539.039 | | Grand Total | | 3,306.428 | |

15 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Liquidity risk

Credit risk

Market risk - currency risk, interest rate risk, other price risk

Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. Officers ensure the fund has adequate cash resources to meet ongoing pensioner payroll costs and investment commitments. A substantial portion of the Fund's investments consist of readily realisable securities in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the Fund are benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements and has immediate access to its cash holdings.

All financial Liabilities are due within one year.

15 Nature and Extent of Risks Arising from Financial Instruments (continued)

Credit Risk

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

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

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

Market Risk

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

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

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

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

Currency Risk

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

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

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

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

The tables below summarise the fund's currency exposure as at 31 March 2021 and 31 March 2020 and the impact of a 10% increase/decrease in the value of the pound on the fund's asset classes.

15 Nature and Extent of Risks Arising from Financial Instruments (continued)

| Market Risk - currency risk 31 March 2021 | Asset Value | Asset Value on increase of 10% | Asset Value on decrease of 10% |
|--|--------------------|---------------------------------------|---------------------------------------|
| | £m | £m | £m |
| Currency Exposure-asset type | | | |
| Overseas Equities | 660.057 | 726.063 | 594.051 |
| Overseas Unit Trusts | 278.468 | 306.315 | 250.621 |
| Overseas public sector bonds (quoted) | 2.024 | 2.226 | 1.821 |
| Overseas corporate bonds (quoted) | 43.606 | 47.966 | 39.245 |
| | 984.154 | 1,082.570 | 885.739 |

| Market Risk - currency risk 31 March 2020 | Asset Value | Asset Value on increase of 10% | Asset Value on decrease of 10% |
|--|--------------------|---------------------------------------|---------------------------------------|
| | £m | £m | £m |
| Currency Exposure-asset type | | | |
| Overseas Equities | 715.874 | 787.461 | 644.286 |
| Overseas Unit Trusts | 235.493 | 259.043 | 211.944 |
| Overseas public sector bonds (quoted) | 1.822 | 2.004 | 1.640 |
| Overseas corporate bonds (quoted) | 42.228 | 46.451 | 38.005 |
| | 995.417 | 1,094.959 | 895.876 |

Interest Rate Risk

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

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

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

15 Nature and Extent of Risks Arising from Financial Instruments (continued)

| Market Risk - interest rate risk 31 March 2021 | Duration (years) | Asset Values assumed | Asset Value on increase of 1% | Asset Value on decrease of 1% |
|---|---------------------|-------------------------|----------------------------------|-------------------------------------|
| | | £m | £m | £m |
| Asset Type | | | | |
| Fixed Interest Securities | | | | |
| UK public sector (quoted) | 13.57 | 93.113 | 80.473 | 105.752 |
| UK corporate (quoted) | 8.04 | 42.335 | 38.931 | 45.738 |
| Overseas public sector (quoted) | 11.90 | 2.024 | 1.783 | 2.264 |
| Overseas corporate (quoted) | 6.91 | 43.606 | 40.593 | 46.618 |
| UK public sector index linked | 22.18 | 91.570 | 71.261 | 111.880 |
| | | | | |
| Cash & cash equivalents | | | | |
| Cash | | 174.697 | 176.443 | 172.950 |
| Total | | 447.345 | 409.484 | 485.202 |

| Market Risk - interest rate risk 31 March 2020 | Duration (years) | Asset Values assumed | Asset Value on increase of 1% | Asset Value on decrease of 1% |
|---|---------------------|-------------------------|----------------------------------|-------------------------------------|
| | | £m | £m | £m |
| Asset Type | | | | |
| Fixed Interest Securities | | | | |
| UK public sector (quoted) | 14.86 | 98.496 | 83.859 | 113.134 |
| UK corporate (quoted) | 7.91 | 40.101 | 36.930 | 43.272 |
| Overseas public sector (quoted) | 15.02 | 1.822 | 1.548 | 2.096 |
| Overseas corporate (quoted) | 7.48 | 42.228 | 39.071 | 45.385 |
| UK public sector index linked | 22.97 | 87.417 | 67.337 | 107.496 |
| | | | | |
| Cash & cash equivalents | | | | |
| Cash | | 110.668 | 111.775 | 109.561 |
| Total | | 380.732 | 340.520 | 420.944 |

Other Price Risk

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

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

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

15 Nature and Extent of Risks Arising from Financial Instruments (continued)

| Market Risk - other price risk 31 March 2021 | 1 year expected volatility (%) | % of Fund | Asset Values assumed £m | Value on increase £m | Value on decrease £m |
|---|---|---------------|-------------------------------|----------------------------|----------------------------|
| Asset Class | | | | | |
| UK Equities | 16.70 | 14.47 | 478.300 | 558.176 | 398.424 |
| Global Equities | 17.40 | 37.91 | 1,252.700 | 1,470.670 | 1,034.730 |
| Infrastructure | 21.00 | 4.26 | 140.800 | 170.368 | 111.232 |
| Property | 14.20 | 6.89 | 227.800 | 260.148 | 195.452 |
| Corporate Bonds (short term) | 3.20 | 0.68 | 22.400 | 23.117 | 21.683 |
| Corporate Bonds (medium term) | 8.00 | 5.00 | 165.200 | 178.416 | 151.984 |
| Corporate Bonds (long term) | 9.90 | 2.00 | 66.200 | 72.754 | 59.646 |
| fixed gilts (short term) | 2.20 | 0.72 | 23.900 | 24.426 | 23.374 |
| fixed gilts (medium term) | 7.30 | 1.36 | 44.800 | 48.070 | 41.530 |
| fixed gilts (long term) | 9.90 | 1.68 | 55.500 | 60.995 | 50.006 |
| UK index linked gilts (short term) | 4.10 | 0.16 | 5.300 | 5.517 | 5.083 |
| UK index linked gilts (medium term) | 7.50 | 6.58 | 217.500 | 233.813 | 201.188 |
| UK index linked gilts (long term) | 9.50 | 4.45 | 147.000 | 160.965 | 133.035 |
| Cash | 0.30 | 4.46 | 147.500 | 147.943 | 147.058 |
| Absolute Return/Diversified Growth | 11.90 | 8.43 | 278.500 | 311.642 | 245.359 |
| Commodities | 0.00 | 0.00 | 0.000 | 0.000 | 0.000 |
| Private Debt | 4.60 | 0.95 | 31.400 | 32.844 | 29.956 |
| | | 100.00 | 3,304.800 | 3,759.862 | 2,849.738 |

| Market Risk - other price risk 31 March 2020 | 1 year expected volatility (%) | % of Fund | Asset Values assumed £m | Value on increase £m | Value on decrease £m |
|---|---|---------------|-------------------------------|----------------------------|----------------------------|
| Asset Class | | | | | |
| UK Equities | 27.50 | 15.44 | 392.100 | 499.928 | 284.273 |
| Global Equities | 28.00 | 44.00 | 1,117.200 | 1,430.016 | 804.384 |
| Infrastructure | 20.10 | 3.25 | 82.600 | 99.203 | 65.997 |
| Property | 14.20 | 8.55 | 217.100 | 247.928 | 186.272 |
| Corporate Bonds (short term) | 5.00 | 1.01 | 25.600 | 26.880 | 24.320 |
| Corporate Bonds (medium term) | 9.80 | 3.66 | 93.000 | 102.114 | 83.886 |
| Corporate Bonds (long term) | 11.60 | 1.75 | 44.500 | 49.662 | 39.338 |
| fixed gilts (short term) | 2.30 | 0.65 | 16.400 | 16.777 | 16.023 |
| fixed gilts (medium term) | 7.60 | 1.24 | 31.500 | 33.894 | 29.106 |
| fixed gilts (long term) | 10.50 | 2.43 | 61.800 | 68.289 | 55.311 |
| UK index linked gilts (short term) | 4.10 | 0.17 | 4.400 | 4.580 | 4.220 |
| UK index linked gilts (medium term) | 7.40 | 0.88 | 22.300 | 23.950 | 20.650 |
| UK index linked gilts (long term) | 9.30 | 2.40 | 60.900 | 66.564 | 55.236 |
| Cash | 0.30 | 4.43 | 112.600 | 112.938 | 112.262 |
| Absolute Return/Diversified Growth | 13.80 | 9.27 | 235.500 | 267.999 | 203.001 |
| Commodities | 0.00 | 0.00 | 0.000 | 0.000 | 0.000 |
| Private Debt | 7.20 | 0.85 | 21.600 | 23.155 | 20.045 |
| | | 100.00 | 2,539.100 | 3,073.877 | 2,004.323 |

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

When estimating the volatility the Fund Asset Value at 31 March 2021 was assumed to be £3.305bn. The 1 year weighted average volatility was 13.8% at 31 March 2021, meaning the 'value on increase' would be £3.760bn and the 'value on decrease' would be £2.850bn.

16 Actuarial Valuation

Employee contributions are fixed by statute and employers' basic contributions are assessed every three years by the actuary. The last valuation of the fund was carried out as at 31 March 2020 by Hymans Robertson and the actuarial statement, including assumptions made in the calculations, is contained in this Annual Report

Adjustments have been made to the primary rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers and the minimum level of contributions for each employer is detailed in the report. For Fife Council it was recommended that the employers' contribution rate is as follows:

| Financial Year | Employers' Contribution rate |
|----------------|------------------------------|
| 2021-22 | 24.50% |
| 2022-23 | 24.50% |
| 2023-24 | 24.50% |

The actuary also undertakes a valuation to present the value of promised retirement benefits, an equivalent calculation which shows employers' future liability to pay pensions earned at the balance sheet date, in accordance with IAS19. It is essentially a snapshot which captures the liability at a specific point in time only and should not be used for comparing against liability measures on a funding basis. The liabilities have been projected using a roll forward from the latest formal fund triennial valuation at 31 March 2020, with no allowance for future unfunded benefits.

| | 31 March 2020 | 31 March 2021 |
|---|---------------|---------------|
| | £m | £m |
| Present Value of Promised Retirement Benefits | 3,048.000 | 4,115.000 |

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

IAS 19 Assumptions used

| | 31 March 2020 | 31 March 2021 |
|-----------------------------------|---------------|---------------|
| | % | % |
| Inflation / pension increase rate | 1.90 | 2.85 |
| Salary Increase rate | 2.30 | 3.35 |
| Discount rate | 2.30 | 2.00 |

Demographic assumptions

| | Males | Females |
|--|-------|---------|
| Future life expectancies assumed in the calculation | | |
| Current Pensioners | 20.3 | 23.1 |
| Future Pensioners | 21.5 | 25.1 |

Sensitivity Analysis

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

| Change in assumptions at 31 March 2021 | Approximate % increase to Defined Benefit Obligation | Approximate monetary amount (£m) |
|--|--|----------------------------------|
| 0.5% decrease in Real Discount Rate | 9% | 361 |
| 0.5% increase in the Salary Increase Rate | 1% | 52 |
| 0.5% increase in the Pension Increase Rate | 10% | 423 |

17 Analysis of Debtors

| 2019-20 | | 2020-21 |
|--------------|--------------------|--------------|
| £m | | £m |
| 0.279 | Central Government | 0.239 |
| 0.549 | Other Debtors | 0.084 |
| 0.828 | | 0.323 |

18 Additional Voluntary Contributions (AVC)

| 2019-20 Contributions | Fund Value 31 March 2020 | | 2020-21 Contributions | Fund Value 31 March 2021 |
|-----------------------|--------------------------|------------------|-----------------------|--------------------------|
| £m | £m | | £m | £m |
| 0.112 | 1.001 | Standard Life | 0.109 | 1.064 |
| 1.048 | 3.944 | Prudential | 1.086 | 4.351 |
| 0.000 | 0.091 | Clerical Medical | 0.000 | 0.064 |
| 0.008 | 0.092 | Utmost | 0.000 | 0.000 |
| 1.168 | 5.128 | | 1.195 | 5.479 |

Equitable Life, transferred its business to Utmost on 1 January 2020. Having taken professional advice from Hymans Robertson, Fife Pension Fund decided to transfer AVC funds with Utmost to Prudential. The transfer of members' AVC funds from Utmost to Prudential was completed on 29 July 2020 with members' AVC monies invested in Prudential funds on 3 August 2020.

19 Related Party Transactions

Fife Council, the administering authority of the fund, also provides support services for the fund and in 2020-21 charged £1.779m (2019-20 £1.698m) for those services.

Fife Council paid employers' contributions to the Pension Fund of £73.302m (2019-20 £69.328m) and collected and paid over employees's contributions of £17.102m (2019-20 £16.270m)

Governance

All members of both the Superannuation Fund and Pensions Committee and the Pensions Board are members of the Fife Pension Fund.

19a Key Management Personnel

The key management personnel of the fund are the Chief Executive and the Executive Director Finance and Corporate Services. Total remuneration payable to key management personnel is set out below:

| 2019-20 | | 2020-21 |
|--------------|---------------------------|--------------|
| £m | | £m |
| 0.277 | Salary, fees & Allowances | 0.289 |
| 0.277 | | 0.289 |

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

| 2019-20 | | 2020-21 |
|---------|--|---------|
| £m | | £m |
| 0.068 | In year employer's pension contributions | 0.071 |
| | Accrued Pension Benefits | |
| 0.122 | Pension | 0.129 |
| 0.205 | Lump Sum | 0.212 |

20 Events after the Reporting Date

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

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is

There have been no events since March 2021 which require disclosure.

21 Contingent Assets and Liabilities

At 31 March 2021 there were no contingent assets or liabilities.

22 Impairment Losses

No investment assets were subject to impairment during the year.

23 Accounting Standards Issued, not yet Adopted

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

Accounting Standards not yet adopted are:-

- Definition of a Business: Amendments to IFRS 3 Business Combinations.
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS7.
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

There is no significant impact on the pension fund accounts arising from standards not yet adopted.

MEMBERSHIP OF THE FUND

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

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

The list of participating employers at 31 March 2021 is as follows: -

Scheduled Bodies

Fife Council

Fife College

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

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

Admitted Bodies

St Andrews Links Trust

Fife Housing Group

Citizens Advice & Rights Fife

Home-Start Levenmouth

Business Gateway Fife

Drug & Alcohol Project

Fife Intensive Rehabilitation & Substance Misuse Team (FIRST)

The Clued-Up Project

Forth & Oban

Fife Sport & Leisure Trust

Fife Coast & Countryside Trust

Fife Golf Trust

Fife Cultural Trust

Scotland's Rural College (SRUC)

Fife Resource Solutions

Poppyview Family Centre

Sodexo

Changes in Membership

The following bodies exited the fund under the terms of the Small Employers Exit Proposal: -

Fife Women's Aid on 30 September 2020.

St Andrews Botanic Garden Trust on 31 October 2020

Fife Historic Buildings Trust on 10 December 2020.

Visit Scotland membership was transferred to Lothian Pension Fund on 30 September 2020.

FIFE PENSION FUND**STATEMENT OF INVESTMENT PRINCIPLES****1. Introduction**

- 1.1 This Statement of Investment Principles (SIP) was agreed by the Superannuation and Pensions Committee (Committee) of Fife Council (FC) on 29 June 2021. FC is the administering authority for the Fife Pension Fund (the Fund).
- 1.2 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a SIP. The SIP must be reviewed from time to time and revised within six months of any material changes in the Policy.
- 1.3 In preparing this statement, the Committee has taken professional advice from the Joint Investment Strategy Panel (**JISP**), which includes external advisers and members of the internal investment team who are FCA authorised individuals.
- 1.4 The SIP describes the objectives, policies and principles adopted by the Committee of FC in undertaking the investment of fund monies. The SIP also discloses the extent to which the Fund comply with the six “Myners Principles” of investment practice (Appendix 2).

2. Governance

- 2.1 FC has delegated responsibility for the supervision of the Funds to the Committee, which comprises nine elected members from FC. The Committee is supported by a statutory Pensions Board consisting of four Trade Union and four employer representatives, which is responsible for ensuring that the Fund operates in accordance with the applicable laws and regulations. The Committee and Board will be supported by an independent professional observer from September 2021.
- 2.2 The Committee determines investment strategy based on proper advice from FC’s Executive Director of Finance & Corporate Services. The Executive Director of Finance and Corporate Services delegates this role to the Head of Finance taking advice from the JISP and external investment advisers.
- 2.3 Responsibility for implementing the strategy is delegated to the Executive Director of Finance and Corporate Services who delegates this role to the Head of Finance, taking advice from the JISP and external investment advisers. Day to day management of the Fund’s assets is currently undertaken by external investment managers whose activities are governed by Investment Management Agreements and the limits set out in Scheme regulations.
- 2.4 The SIP forms part of a governance framework that includes Statutory Regulations, the Pensions Committee, the Pension Board, the Joint Investment Strategy Panel, the Funds’ Advisers and the Funds’ Funding Strategy Statement.

3. High Level Investment Principles

The following principles agreed by the Committee are designed to guide the Funds’ governance, strategies and alignment with their agents and to support consistency in decision-making over the long term.

Governance

- 3.1 **Principle 1: Committee believes that their decisions, and those of officers, must give precedence to the fiduciary duty owed to members and employers.** Fiduciary duty is paramount. The Pensions Committee recognises the potential conflicts of interests inherent in a local authority administering a multi-employer pension fund. The objectives of the administering authority, its officials and officers and those of the pension fund are not necessarily the same. The primary objective is to ensure sufficient funding in the long term so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. (Legal view on fiduciary duty issued by the Scheme Advisory Board is available at <https://lgpsab.scot/fiduciary-duty-guidance/>.)
- 3.2 **Principle 2: Committee believes that the Fund should mitigate risk by ensuring alignment of interests wherever possible.** Agency costs are high in the financial services industry – agents are often motivated to act in their own best interests rather than those of the principal (the Funds). Alignment of interests and partnering with similarly aligned organisations will help to reduce risk and address the principal-agency problem to the benefit of the Funds and partners. External Finance and Corporate Services should, therefore, be used where internal Finance and Corporate Services cannot be justified or obtained, or where an external perspective provides additional skills or insight into investment matters, and where suitable alignment can be established.
- 3.3 **Principle 3: Committee believes that it should work with like-minded partners to benefit from increased scale and greater resilience.** There are significant economies of scale in the business of managing investments, so working with like-minded partners with similar long-term objectives and liabilities can achieve lower costs and reduce operational risks with increased resilience.
- 3.4 **Principle 4: Committee believes that cost transparency aids decision-making.** The asymmetric structure of incentives in financial markets (upside participation in success without downside participation in failure) encourages strategies that may benefit agents (external managers and other financial intermediaries) and be detrimental to investor (Fund) returns. Agents often present fees and other charges in a way that obscures rather than illuminates. Full cost transparency should aid decision-making and so benefit Fund returns.
- 3.5 **Principle 5: Committee believes it should focus on policy setting, including high-level strategic asset allocation which defines risk and return objectives, with appropriate governance structure and oversight.** Implementation of more granular investment decisions (such as the selection/deselection of individual managers and investments) and regular monitoring should be delegated to suitably qualified and experienced individuals with sufficient time and other Finance and Corporate Services at their disposal. Appropriate delegation, constraints and reporting requirements should be in place. Reporting to Committee should focus on the long-term objectives of the Fund and how delegated decisions have contributed to these.

Funding

- 3.6 **Principle 6: Given future uncertainties, the funding strategy should be prudent and should reduce risk to employers of another employer defaulting on its pension obligations.** The Funding Strategy Statement expresses the funding objective, which informs the invested strategy options. The ultimate objective is to ensure long-term solvency so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due, so full funding should be achieved in a prudent manner to ensure that liquid assets are available at the required time. This is important for members, employers and taxpayers as the scheme is ultimately state-backed.

- 3.7 **Principle 7: Committee believes that the the Fund should consider requests for different investment strategies from employers with different objectives.** Employers have conflicting desires: on the one hand, they would like to minimise the fluctuations in contributions and on the other hand, they would like to minimise the overall amount of contributions. Employers may have different objectives, so they should be given the opportunity to request a bespoke investment strategy. The Fund should consider such requests, taking account of issues such as employer covenant and implementation costs.

Investments

- 3.8 **Principle 8: Committee believes that the ability of the Fund to pay pension benefits when they fall due is more important than mark-to-market funding levels.** Committee recognises that there are various ways to measure the value of promised benefits in a defined benefit scheme. Committee believes that where employer circumstances allow, investment strategy should focus on delivering strong (real) returns that grow to cover cashflows over the longer term rather than focusing on protecting the funding level in the short term.
- 3.9 **Principle 9: Committee believes ‘return-seeking’ assets are likely to outperform ‘risk-free’ assets as the investment horizon lengthens, but this is not guaranteed.** Time horizons matter a great deal. The appropriate horizon for investment risk-taking depends on the duration of the liabilities, the profile of projected cash flows and the deficit recovery and contingency plans for the scheme (the sponsor covenant).
- 3.10 **Principle 10: Committee believes in owning a diversified portfolio of assets so that it is not overly exposed to any particular contingency.** Asset diversification can reduce risk where assets are not perfectly correlated. Committee recognises that the future is unpredictable and that real returns from investments are uncertain. Fund returns will be determined primarily by the high-level investment strategy allocation to different asset classes and the timing of material changes. Asset allocation balances diversified risks with the expected additional returns for these risks.
- 3.11 **Principle 11: Committee believes that responsible investment should reduce risk and may improve returns, but that mechanistic divestment is inconsistent with the Fund’s fiduciary duty to members and employers.** The Local Government Pension Scheme (LGPS) was designed with an important social purpose in mind – the provision of retirement income for individuals. The Fund’s fiduciary duty means that the pursuit of financial return is its paramount concern, although it may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment. Committee believes that the decisions to invest in, or divest from, a particular company should be made by an investment manager based on a holistic analysis of financially material issues, including environmental, climate change, social and governance issues.
- 3.12 **Principle 12: Committee believes it should exercise its ownership rights in a responsible way, constructively engaging with companies to reduce risk.** The Fund’s interests are better protected from adverse impacts by collaborating with like-minded investors to have greater influence in engaging with companies, government and regulators. Engagement aims to encourage responsible behaviour by companies in relation to environmental, social and governance issues.
- 3.13 **Principle 13: Committee believes that monitoring and assessment of investment success should be viewed on a long-term basis.** No asset mix provides a stream of cash flows that perfectly matches the liability payments of the Fund as they fall due, so monitoring activity is complex. The Fund is long term in nature and the success of a given investment strategy is likely to ebb and flow with changing investment environments in an unpredictable way. Investment monitoring is challenging and should be viewed through a long-term lens.

- 3.14 **Principle 14: Committee believes that peer group comparative analysis needs to be treated with care.** No two pension funds are identical, so peer group analysis should be undertaken with care as different funds can hold different investment beliefs, objectives and return and risk appetites.

4. Responsible Investment

- 4.1 With liabilities extending decades into the future, it is in the Funds' interest to take its responsibilities as institutional asset owners seriously. To this end, the Funds' approach to responsible investment centers on effective stewardship of all assets, with a particular focus on good corporate governance to deliver sustainable investor value.
- 4.2 The Fund considers a wide range of issues and what financial impact it could have on the assets that it owns. The Funds' investment managers are charged with integrating ESG analysis into their decision-making. Investment managers are selected and appointed after due consideration of their approach to integrating ESG considerations into their investment process.
- 4.3 The Fund demonstrate their open and transparent approach to Responsible Investing by publishing a Statement of Responsible Investment Principles (SRIP). This document explains how the Fund practise responsible investment asset class by asset class, and how it is committed to limiting the impact of climate change. The SRIP is published as a standalone document. It represents the Fund's position on Responsible Investment, and it forms part of the Pensions Committee's regular review of Stewardship and Engagement activities.
- 4.4 Another key strand of the Funds' approach to responsible investment is voting and engagement. For listed equities, the Fund is committed to exercising the right to vote the shares that it owns. It is also committed to engaging with and influencing companies, governments and regulators where appropriate. The Fund does not follow a policy of exclusion or automatic divestment, as such a policy has the potential to transfer ownership rights to investors without responsible investment policies.
- 4.5 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. As long-term investors, the Fund recognises the importance of promoting responsible stewardship and long-term decision making. The Fund seeks to adhere to the FRC'S UK Stewardship Code, and encourage it's appointed asset managers to do so too. Details of adherence to the Code are provided in Appendix 2.

5. Fund's Objectives

- 5.1 The **primary objectives** of the Fund is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment.
- 5.2 The **funding objectives** for the Fund are documented in the Committee's Funding Strategy Statement, which is reviewed at least triennially. The funding objectives, together with the rates of return being targeted and levels of risk to be tolerated, are central to each Fund's investment strategy, and governs the allocation across various asset classes.
- 5.3 The **investment objectives** of the Fund are to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives as outlined in the Funding Strategy Statement. Investment returns are generated by a combination of income (from dividends, interest and rents) and gains or losses on capital.

- 5.4 In effect, the Funds' objectives are to generate sufficient long term returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.
- 5.5 Committee has set investment strategy with reference to the following **policy groups**, which are regarded as the key determinants of risk and return. The policy groups condense the vast array of investment choices into a manageable number of investment groups with broadly similar characteristics:
- **Equities** provide an equitable share in the assets and profits of companies. Income is provided through discretionary share dividends. Equities are listed in the UK or overseas, or are unlisted (private equity). Equities have historically produced returns above inflation.
 - **Gilts** are debt instruments issued by the UK Government. Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some gilts provide interest payments and capital repayment value that is directly linked to price inflation (the Retail Price Index (RPI)). These are known as **Index Linked Gilts** and they provide the closest match to the Funds' liabilities, most of which are inflation-linked. Some other governments also issue this type of debt, but in different currencies tied to price inflation in their own countries.
 - **Non-Gilt Debt** instruments are issued by a range of borrowers to finance their activities in various sectors of the economy, which means that they carry varying degrees of credit risk. Income is provided through interest, which is typically paid to the lender on a regular basis until the loan capital is repaid, generally at par by the issuer at a pre-determined date. Bonds can pay a fixed, variable or inflation-linked rate of interest. Bonds are listed in the UK or overseas, or are unlisted (private debt).
 - **Other Real Assets** are typically investments in a share of income and capital appreciation of tangible assets, including **property** (land and/or buildings for commercial or residential use), **infrastructure** (assets deemed essential to the orderly functioning of daily life, such as renewable energy generation and transmission assets, water utilities, airports and toll roads) and **timberlands**. Income comes from dividends and rents.
 - **Cash** is also a form of investment used to provide instant or short-term liquidity, and can be held in both sterling and foreign currencies (including Treasury Bills, Money Market Funds and Secured Investments). Cash generates interest income, but typically a lower rate than bonds and other debt.
- 5.6 As the returns of the above investments are not completely correlated, the Funds expect to achieve diversification and better risk-adjusted returns by investing in assets from each policy group.

6. Fund strategy

- 6.1 The Committee's agreed investment strategy (presented in Appendix A) is expressed in terms of allocations to various policy groups (or asset classes). These reference portfolios are expected to generate the required return with a reasonable probability of success. The rate of return being targeted and the level of risk to be tolerated are central to the determination of the investment strategy (or asset mix) for Fund.
- 6.2 There may also be demand from individual employers for other investment strategies for their section of the Fund. The Fund will consider such requests, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.
- 6.3 The Fund's investment strategy is measured against strategy-specific benchmarks by an independent performance measurement specialist, and these are reported to Committee at least annually with reference to asset market returns as well as liability valuations. The

Executive Director of Finance and Corporate Services is responsible for monitoring investments and investment activity, and she delegates this function to the Head of Finance taking advice from the JISP, which meets at least quarterly.

7. Strategy Implementation

- 7.1 The Committee delegates implementation of strategy to the Executive Director of Finance and Corporate Services, who delegates the role to the Head of Finance, taking advice from the Joint Investment Strategy Panel (JISP). The Head of Finance operates within the parameters agreed by the Committee, investing the Funds' assets in the policy groups within the permitted ranges.
- 7.2 The Head of Finance, advised by the JISP, identifies the combination of investment managers and mandates within the policy groups to deliver the objectives of the Fund. The investment managers and mandates are listed in Appendix B.
- 7.3 To reduce the risk that the Fund does not deliver its objective, controls are set for each manager. These are detailed in formal Investment Management Agreements; and similarly, formal investment objectives and constraints are set for internal mandates where appropriate. The investment managers are responsible for the selection of individual holdings.
- 7.4 The Funds' investment managers and mandates are measured against mandate-specific benchmarks of risk and return by an independent performance measurement specialist. Performance and mandate implementation is monitored by the JISP on a quarterly basis.
- 7.5 The Fund will look to collaborate with other investors to benefit from increased scale and cost sharing arrangements.

8. Other Investment Considerations

Realisation of investments

- 8.1 Most of the Funds' investments are in liquid markets and can be expected to be sold relatively quickly if required. A proportion of the Funds' investments (such as property, private equity, private debt and infrastructure) have less or limited liquidity and would therefore take longer to be sold. The overall liquidity of the Fund's assets is considered in the light of potential demands for cash.

Stock Lending

- 8.2 The Fund lends a proportion of its investments to maximise income from share ownership. Stock lending is conducted within parameters prescribed in the regulations. Stock lending does not prevent any investments from being sold. Safeguards are in place to reduce risk of financial loss in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, an indemnity agreement with the lending agent and regular reviews of the credit-worthiness of potential borrowers.

Underwriting

- 8.3 Managers are permitted to underwrite and sub-underwrite stock issues subject to the security being deemed attractive on a medium-term view and subject to the application being limited to an amount the manager would wish to hold over the medium term.

Derivatives

- 8.4 The Committee has approved the use of derivatives, subject to prevailing legislation and control levels outlined in investment manager agreements. A derivative is a security or contract that derives its value from its relationship with another asset. The Fund may make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for efficient portfolio management or to hedge specific risks. For example, forward

currency contracts allow the Funds to reduce risk from currency fluctuations and equity futures allow the Funds to reduce risk during major portfolio rebalances/transitions.

Safekeeping of Assets

- 8.5 The services of a global custodian are employed to ensure the safekeeping of investments.

9. Compliance

Regulations and Investment Limits

- 9.1 The Funds are compliant with the statutory restrictions set out in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 and the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016.

CIPFA Principles for Investment Decision Making

- 9.2 Regulations require administering authorities to publish the extent to which they comply with guidance issued by Scottish Ministers, which in turn refer to guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Funds' compliance statement is provided in Appendix D.

Review of SIP

- 9.3 The Committee will review this statement annually or more frequently if appropriate. The Committee will consult with such persons as it considers appropriate and take proper advice when revising the statement.

Appendix A – Investment Strategy (29 June 2021)

FIFE PENSION FUND: INVESTMENT STRATEGY

Investment Objectives: to achieve a return and generate sufficient cash to pay pensions as they fall due.

| Policy Group | Strategy | Permitted Range |
|----------------------|-----------------|------------------------|
| Equities | 55% | 45%-65% |
| Real Assets | 15% | 10%-25% |
| Non-Gilt Debt | 15% | 5%-25% |
| LDI (formerly Gilts) | 15% | 5%-25% |
| Cash | 0% | 0%-10% |
| Total | 100% | |

Appendix B – Mandates and Managers

The investment strategy in Appendix A is implemented by investing in a range of mandates managed by external investment managers. The current mandates and managers for the Fund are presented in the table below:

| Policy Group | Mandate | Manager |
|----------------------|-------------------------------|---|
| Equities | | |
| | UK Passive | Blackrock |
| | Global Low Volatility | Blackrock |
| | Global Growth | Baillie Gifford |
| | Global Fundamental Indexation | State Street |
| Real Assets | | |
| | Property | CBRE |
| | Global Infrastructure | Partners Group |
| | Infrastructure LPs | Various |
| Non Gilt Debt | | |
| | Corporate Bonds | Janus Henderson |
| | Corporate Bonds | Western |
| | Over 5 Years US Index Linked | Legal and General Investment Management |
| | Liquid Credit | Legal and General Investment Management |
| | Private Debt | Various |
| Gilts | | |
| | Government Bonds | Janus Henderson |
| | Government Bonds | Western |
| Cash | | |
| | Cash | Various |
| Other | | |
| | Diversified Growth | Ballie Gifford |

APPENDIX C – Statement of Compliance with UK Stewardship Code

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting transparency and integrity in business. It sets the UK's Corporate Governance and Stewardship Codes. The Funds' Statement of Compliance with the UK Stewardship Code is presented below:

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

We acknowledge our role as an asset owner under the UK Stewardship Code and seek to hold to account our fund managers and service providers in respect of their commitments to the Code.

In practice, our policy is to apply the Code through a) the appointment of Federated Hermes Equity Ownership Services (EOS); b) the work of external investment managers; and c) the work of the internal investment team where appropriate.

We believe that EOS at Federated Hermes enables us to provide the highest standards of stewardship on behalf of the beneficiaries of the Funds through their monitoring of shareholdings, so that we can fulfil our fiduciary responsibilities as long-term shareholders.

- EOS at Federated Hermes has the expertise to undertake corporate engagement on an international basis, and they do this for us. Their aim is to bring about positive long-term change at companies through a focused and value-oriented approach. Engagements undertaken by EOS at Federated Hermes on our behalf are guided by [Hermes EOS Corporate Governance Principles](#).
- Through EOS at Federated Hermes, we also work to establish effective regulatory regimes in the various markets in which we invest to encourage governance structures that facilitate accountability of companies to their owners, give companies the certainty they need to plan for the future, and to level the playing field to ensure companies are not disadvantaged for prioritising long-term profitability.

External fund managers take direct responsibility for stewardship issues, including voting and engagement, in the funds which they manage on our behalf.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund's efforts to manage potential conflicts of interest can be summarised below:

- We are supported in effectively managing conflicts of interest in relation to our stewardship work by EOS at Federated Hermes. EOS at Federated Hermes explains how it manages conflicts of interest on our behalf in its Stewardship conflicts of interest policy document.
- We also encourage the asset managers employed by the Fund to have effective policies addressing potential conflicts of interest.
- In respect of conflicts of interest within the Fund, Pensions Committee members are required to make declarations of interest prior to Committee meetings.
- Our policy of constructive engagement with companies is consistent with the Funds' fiduciary responsibilities.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for monitoring our equity holdings is delegated to EOS at Federated Hermes and External Fund Managers:

- We expect them to monitor companies, intervene where necessary, and report back regularly on activity.
- Activity will be reported on the Funds' website, including the number of company meetings at which the Fund has voted and how the Fund has voted.

In order to foster a positive working relationship with an individual company and to build trust, EOS at Federated Hermes may be willing to become an "insider". In such circumstances, the relevant information will not be passed to FC until after it is no longer inside information.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary.

- We expect the approach to engagement on our behalf to be value-orientated and focused on long term sustainable profitability. We expect EOS at Federated Hermes and External Fund Managers to disclose their guidelines for such activities in their own statements of adherence to the Code.
- Consistent with our fiduciary duty to beneficiaries and to encourage improved conduct in future, we consider participating in shareholder litigation where it appears likely that the Fund will recover losses (net of costs) sustained because of inappropriate actions by company directors.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

We seek to work collaboratively with other institutional shareholders to maximise the influence that we can have on individual companies. We do this through:

- The appointment of EOS at Federated Hermes, whose engagement service pools asset ownership with the aim of protecting and enhancing shareholder value. EOS at Federated Hermes represents us and other like-minded asset owners globally using its expertise to enhance our effectiveness in communicating with companies, industry bodies, regulators and legislators.
- Our preference is for managers to vote on the Funds' behalf and for responsible stewardship to be integral to the investment decision-making process. We are comfortable with delegation of voting to External Fund Managers for the funds they manage.
- For all other mandates, EOS at Federated Hermes votes consistently across the portfolios it covers, and makes voting decisions based on a thorough analysis of publicly available information and always taking account of a company's individual circumstances. EOS at Federated Hermes informs companies where it has concerns and seeks a resolution prior to taking the decision to vote against management. In this way, it uses our votes as a lever for positive change at companies. Underpinning voting decisions are EOS at Federated Hermes Regional Corporate Governance policies, which can be found in the following link:

<https://www.hermes-investment.com/uki/about-us/policies-and-disclosures/>

- We are committed to disclosing our historic voting information on our website. This includes the total number of votes cast at which company meetings and whether the votes were cast for or against company management. We will disclose in arrears so that we are transparent and accountable but dialogue with companies in our portfolios is not compromised.

Principle 6: Institutional investors should report periodically on their stewardship and voting activities.

We are committed to report on our stewardship and voting activities:

- We are committed to reporting annually on stewardship and voting activity in the Funds' annual report and accounts and quarterly on our website.
- We are committed to also report annually on stewardship and voting activity directly to the Pensions Committee.

APPENDIX D – CIPFA Principles for Investment Decision Making and Disclosure

The Chartered Institute of Public Finance and Accountancy (CIPFA) published six Principles for Investment Decision Making and Disclosure in the Local Governance Pension Scheme in the UK in 2012. Details of the principles and the Funds' compliance are described below.

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 Fund's Trustee Training provision provides the knowledge to enable them to evaluate and challenge the advice they receive. Standards relating to the administration of the Committee's business are strictly upheld.
- The Pensions Committee focuses on setting the strategy for the Fund and monitoring performance. The Pension Board also attends Committee meetings and is responsible for assisting the Committee in securing compliance with relevant regulations and other legislation.
- The Committee delegates the day-to-day running of the Fund to the Executive Director of Finance and Corporate Services, who in turn delegates to the Head of Finance and Funds' officers. The Executive Director of Finance and Corporate Services is responsible for the provision of training for Committee to help them to make effective decisions to ensure that they are fully aware of their statutory and fiduciary responsibilities, and to regularly remind them of their stewardship role.
- The Joint Investment Strategy Panel advises the Head of Finance on the implementation of the agreed strategies, reviewing structure, funding monitoring, performance and risk and asset allocation. The Joint Investment Strategy Panel meets at least quarterly and is made up of experienced investment professionals, including independent advisers.
- The in-house team undertakes day-to-day monitoring of the Fund. The team includes personnel with suitable professional qualifications and experience to provide the necessary skills, knowledge, advice and resources to support the Joint Investment Strategy Panel and the Pensions Committee.
- Conflicts of interest are managed actively. At each Committee meeting, elected members of the Pensions Committee and Pensions Board are asked to highlight conflicts of interest. A Code of Conduct applies to members of the Committee and the Pension Board. The Fund ensures conflicts of interest are highlighted and managed appropriately.

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 objectives.
- Asset-liability modelling is undertaken with the help of external advisers to aid the understanding of risks and the setting of investment strategy.
- Employers' attitude to risk is specifically considered in the setting of strategy, and employers can request a bespoke investment strategy.

- Reviews of investment strategy focus on the split between broad asset classes (equities, gilts, other debt, other real assets and cash).
- Investment Management Agreements set clear benchmarks and risk parameters and include the requirement to comply with the Fund's Statement of Investment Principles.
- Appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contract. Procurement of advisers is conducted within European Union procurement regulations.
- The setting of the Funding Strategy includes specific consideration of the desire to maintain stability in employer contribution rates.

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 the scheme's actuary regarding the nature of its liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength and longevity risk.
- The Fund will consider requests for such alternative strategies, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.
- The Funding objectives for the Fund is expressed in relation to the solvency and employer contribution rates. The Fund regularly assess the covenants of participating employers.
- The Executive Director of Finance and Corporate Services is responsible for ensuring the appropriate controls of the Fund. Controls are subject to internal audit, and results of audits are submitted to the Standards and Audit Committee.
- The Fund maintain a risk register, which is reviewed on a regular basis.

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.

- The Fund's performance and risk analysis is produced by an independent external provider.
- The internal investment team monitors the external investment managers' performance and risk on a regular basis and reports this to the Joint Investment Strategy Panel. The Joint Investment Strategy Panel assesses the performance and risk of both internal and external investment managers on a regular basis (typically quarterly).
- The Fund's contracts with its advisers are regularly market tested.
- The Joint Investment Strategy Panel assesses its own performance on a regular basis and reports to Committee on its activities, typically annually.

- Training and attendance of members of the Pensions Committee and the Pensions Board are monitored and reported on a regular basis. The composition of the Committee and Pension Board is kept under review.

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. A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.

Administering authorities should report periodically to members on the discharge of such responsibilities.

- The Fund's approach to responsible investment is described in the Statement of Investment Principles and on the Fund's website.
- The Fund's policy on responsible ownership is included in the statement on the Financial Reporting Council's Stewardship Code (see Appendix C of the Statement of Investment Principles).
- Details of the Fund's voting and engagements will be available on the Fund's website. The Fund's annual report and accounts includes a summary of the Fund's approach to responsible investment. The full report is available on the website and is sent to members on request.

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; and provide regular communication to members in the form they consider most appropriate.

- Meetings of the Pensions Committee are open to the public. Members of the public are entitled to make a deputation at Committee meetings. Committee papers are available on the Fife Council website. The Pension Board joins the Committee at all meetings.
- The Committee's remit covers wider pension scheme issues, other than the management and investment of funds.
- The Fund's policy statements, including the Communications Strategy, Statement of Investment Principles and Funding Strategy Statement are maintained regularly. Stakeholders are consulted on changes. Documents are available on the Fund's website.
- The Fund produces an Annual Report & Accounts. The full report is available on the website and is sent to members on request. The Fund also produces regular newsletters for members as well as an annual benefit statement. Regular briefings are provided to employers. The Fund's website is updated regularly.

FIFE PENSION FUND COMMUNICATION POLICY (May 2020)

Introduction

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

The Local Government Pension Scheme (Scotland) Regulations 2018 require each pension fund administering authority to prepare, publish and review its communication policy statement.

A policy statement must set out:

- The provision of information and publicity of the scheme to members, representatives of members and scheme employers.
- The format, frequency and method of distributing information and publicity.
- The promotion of the scheme to prospective members and scheme employers

This statement summarises how the Fund communicates with members, employers and other stakeholders.

Communications Objectives

The key objectives of the Fund's communication policy are:

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

To achieve these objectives, our aim is to ensure communications are:

- Factual and presented in plain language.
- Designed to meet the needs of each target audience.
- Use the most efficient and effective means of delivery.

Key Audiences

The Fund has identified the following distinct groups with whom it needs to communicate with. They are:

- Scheme members.
- Scheme employers.
- Prospective scheme members and employers.
- Trade Unions.
- Superannuation and Pensions Committee and the Fife Pension Board.

Communication Tools and Strategy

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

Active Scheme members – currently contributing to the Scheme

Member Self Service (MSS)

Member Self Service was introduced in 2016. Through a secure website this application allows members to access and edit personal information, and view financial information, held on their pension records.

Accessible from work or home PCs the site is also available on mobile devices such as smart phones, tablets and laptops.

Once registered, a member can

- Update personal information
- View scheme membership and financial details
- Run estimated benefit calculations for different types of retirement
- Access annual benefit statements
- Access publications such as scheme guides, newsletters and factsheets

By post

- A letter confirming scheme membership to every new entrant.
- On request, communications can be provided in alternative formats including Braille, translation and audio.
- Correspondence relating to members' benefits.

In person/phone

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

Email/Website

- Dedicated email address for queries and enquiries.
- Email used to receive and send correspondence where appropriate.
- On 31st August 2018, the Pensions Team launched the Fife Pension Fund website. The website, which can be found at www.fifepensionfund.org provides an extensive range of up to date scheme literature including scheme guides, leaflets and forms. The site also holds policy statements, governance documents, valuation and annual reports.
- Website has links to other useful websites including www.scotlgps2015.org which provides full details on the current LGPS effective from 1st April 2015.
- Newsletters updating members about scheme changes.
- Global emails promoting the scheme and highlighting specific areas e.g. pension scheme changes

Pensioner Members – those receiving a pension from the Fund

By post

- Correspondence relating to members' benefits.
- On request, communications can be provided in alternative formats including Braille, translation and audio.
- Payslip once a year detailing the annual pension increase.
- Annual newsletter.

In person/phone

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

Email/Website

- Dedicated email address for queries and enquiries.
- Email used to receive and send correspondence where appropriate.
- The website at www.fifepensionfund.org provides an extensive range of up to date scheme literature for pensioner members including scheme guides, leaflets and policies.

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

Member Self Service (MSS)

Member Self Service has been rolled out to deferred members.

Once registered, a deferred member can

- Update personal information
- View scheme membership and financial details
- Run estimated benefit calculations for different types of benefits
- Access annual benefit statements
- Access publications such as scheme guides, newsletters and factsheets

By post

- Correspondence relating to members' benefits.
- On request, communications can be provided in alternative formats including Braille, translation and audio.

In person/phone

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

Email/Website

- Dedicated email address for queries and enquiries.
- Email used to receive and send correspondence where appropriate.
- Website providing an extensive range of up to date scheme literature including scheme guides, leaflets and policies.

Scheme Employers

The Fund communicates with scheme employers in the following ways:

- Annual Employers' Forum.
- Employer newsletters giving updates on legislation and policy matters.
- Wording of global emails/intranet messages provided for employers to cascade down to scheme and potential members.
- Pension Administration strategy setting out the roles, responsibilities and service standards for the Fund and employers.
- Statutory Annual report on the Fund.
- Valuation report.
- Promotion of pension website. Guides/leaflets and forms can be downloaded from the site.
- Training and support provided by Team members on technical, procedural and policy matters.

Prospective Members

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

Representatives of Members

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

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

The Pension Team assists Trade Union representatives with member queries.

Superannuation and Pensions Committee and the Fife Pension Board

The Committee and Board members receive directly all meeting papers. The sub-Committee comprises 9 elected members. Details of the meetings and minutes are available on the Council's website.

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

Development Priorities

A key priority is to improve the digital delivery of our communications. The Pension Team works closely with Hymans Robertson to enhance the website. Hymans Robertson created, and continues to administer, the website for Fife Pension Fund.

The team is working on rolling out Member Self Service to all our pensioner members. This will allow pensioner members to view their monthly pension payments, change bank details and view P60s.

Evaluation

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

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

Contact Details

Fiona Clark
Fife Pension Fund
Fife Council
Rothesay House
Rothesay Place
GLENROTHES
Fife KY7 5PQ

Opening Times: Monday to Friday 8.30 am to 5.00 pm

Telephone: 03451 55 55 55 Ext 440896

Email: pensions.section@fife.gov.uk

Website: www.fifepensionfund.org

INVESTMENT COMMENTARY

LOTHIAN PENSION FUND INVESTMENT (LPFI)

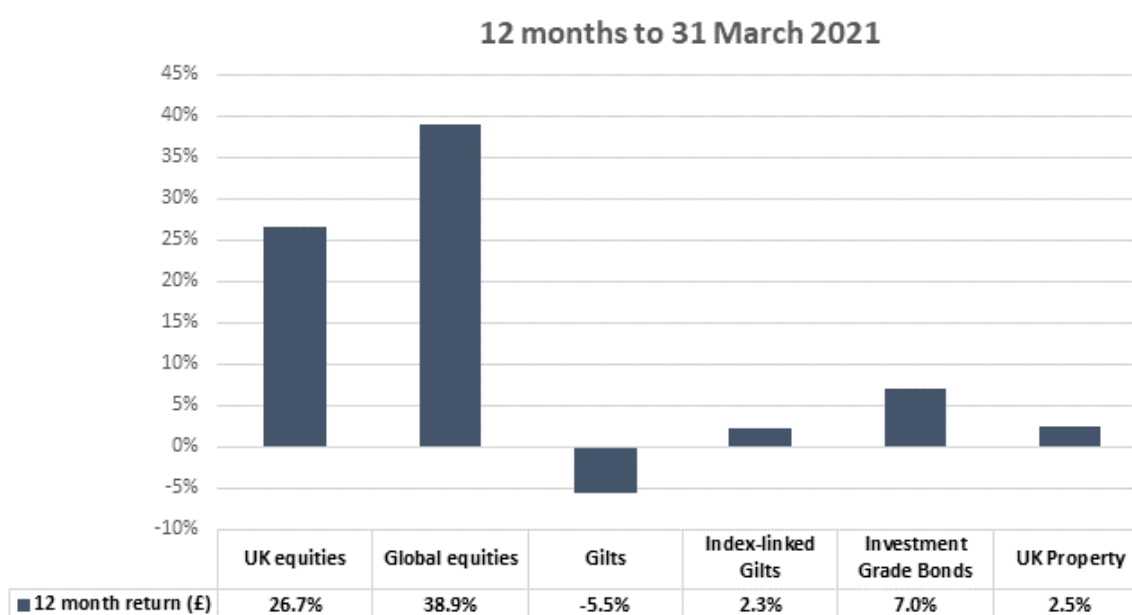
Investment markets

For the 12 months to 31 March 2021, UK equities (FTSE All Share) returned +27%, while global equities (MSCI ACWI, in GBP) returned +39%. The rise in global equities for sterling-based investors was offset by a stronger pound (global equities returned +51% in local currency terms). Sterling had weakened sharply alongside equity markets in March 2020 in response to the widening COVID-19 (coronavirus) pandemic, before stabilising and then strengthening over the period as risk assets recovered.

Credit spreads, which had spiked higher when equity markets sold off in March 2020, recovered strongly ending the period close to their pre-crisis lows. Government bond yields re-tested lows in May 2020 before rising gradually over much of the year, spiking higher on vaccine developments in November then accelerating further on fiscal stimulus expectations with the confirmation of Democratic candidate Joe Biden as US president-elect in December.

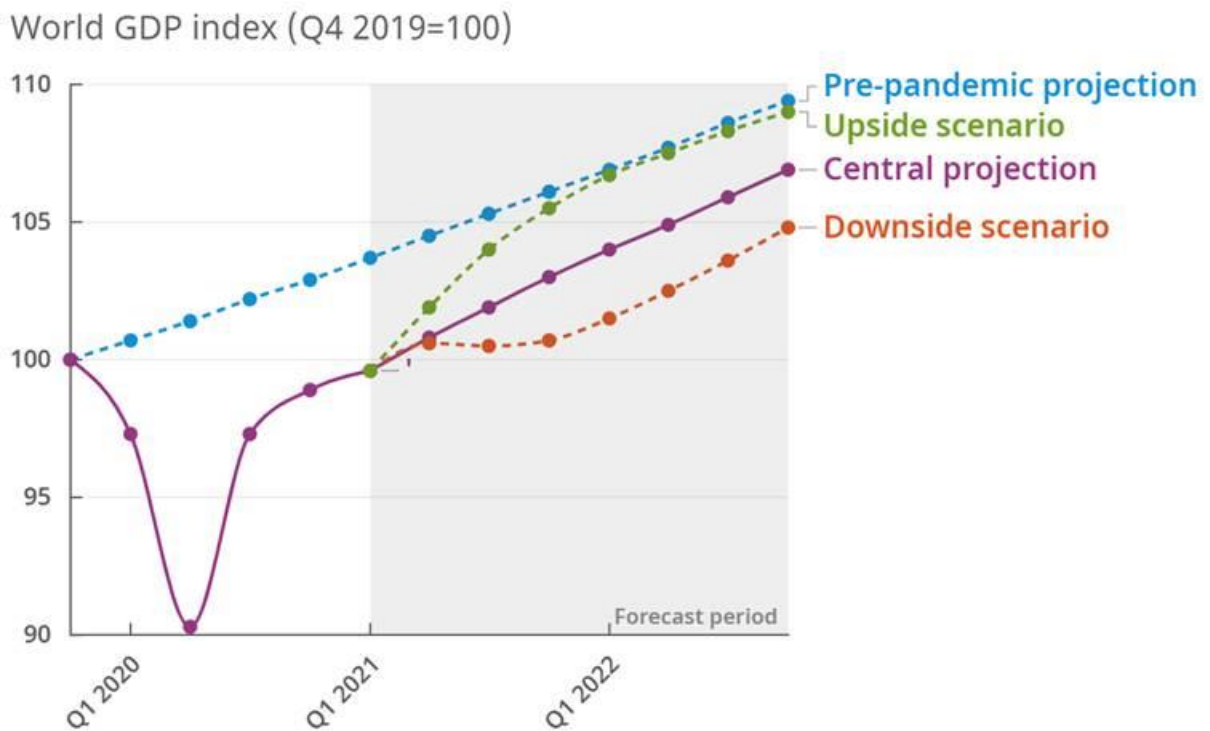
As vaccine roll-outs gained momentum, with the UK to the fore, rising economic optimism supported risk assets, such as equities. Commodity prices also rose as manufacturing activity continued to recover and investor attention, in the latter part of the period, turned increasingly towards recovery sectors such as retail, property, travel and leisure, which had been most negatively impacted by lockdowns. Inflation expectations moved sharply higher in the first quarter of 2021, which caused bond yields to rise and prices to fall.

The graph below shows index returns over 12 months to 31 March 2021 for a range of asset classes.



Source: FTSE, Bloomberg, MSCI, Portfolio Evaluation

The speed with which economies have recovered from the COVID-19 downturn is shown in the World GDP index chart below, alongside the most recent March 2021 forecasts by the OECD. The latest projections provide a much more optimistic outlook than most would have envisaged 12 months ago during the depths of the downturn. The recovery was aided by unprecedented levels of monetary and fiscal support, which cannot be sustained indefinitely; market participants will need to deal, at some point, with the prospect of that support tapering off.



Source: OECD Interim Economic Outlook, March 2021

ADDITIONAL INFORMATION

| | |
|----------------------|---|
| Actuaries: | Hymans Robertson LLP |
| Auditors: | Audit Scotland |
| Bankers: | Royal Bank of Scotland The Northern Trust Company |
| Investment Advisors: | Joint Investment Strategy Panel Scott Jamieson Stan Pearson Kirsty MacGillivray Hymans Robertson Investment Consultants |
| Fund Custodians: | The Northern Trust Company |
| Legal Advisors: | CMS Cameron McKenna Nabarro Olswang LLP Fife Council – Legal Services |

Comments and Suggestions

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

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

Contact Details

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

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

For benefit information, address to the Pensions Team, Shared Service Centre, Finance & Corporate Services.

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

Email: Pensions.section@fife.gov.uk

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Fife Pension Fund (the fund) for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the fund during the year ended 31 March 2021 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 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is five years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Executive Director Finance and Corporate Services and Superannuation Fund and Pensions Committee for the financial statements

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

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

The Superannuation Fund and Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;
- identifying which laws and regulations are significant in the context of the fund;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

Reporting on other requirements

Statutory other information

The Executive Director Finance and Corporate Services is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and my auditor's report thereon.

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

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Brian Howarth ACMA CGMA
Audit Director
Audit Scotland
4th Floor, The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

7th December, 2021

Agenda Item No. 5

Pension Fund Budgetary Control

Report by: Eileen Rowand, Executive Director, Finance and Corporate Services

Wards Affected: All

Purpose

The purpose of this report is to provide the committee with details of the projected outturn of the Pension Fund for 2021-22

Recommendation(s)

The committee is asked to:-

- (1) Consider the projected outturn for 2021-22
- (2) Note that further reports in relation to the financial position of the Fund will be brought forward on a bi-annual basis.

Resource Implications

It is projected that the fund will remain cash-flow positive from activities dealing with members with a projected net addition of £13.996m. The fund may experience a net withdrawal of £3.525m as management expenses are at present forecast to be greater than the net addition, however, the investment income generated is expected to more than cover this.

Fluctuations in market rates and movements in investment valuations have a direct impact on the pension fund. In addition, expenditure greater than income generated could also impact on the fund.

Legal & Risk Implications

There are no direct legal implications arising from this report. However, there is a risk that the actual audited outturn will vary from the projected outturn contained in the report.

Impact Assessment

An EqIA checklist is not required because the report does not propose a change or revision to existing policies and practices.

None

1.0 Background

- 1.1 The report presents the projected outturn position for 2021-22 for the Pension Fund based on actual costs as at the end of October 2021 and provides analysis of significant variances.
- 1.2 The report is intended to present the revenue account of the fund, however, it should be noted that some items of income and expenditure are out with the control and influence of the Pension Fund. Reports outlining details of the revenue account will continue to be presented to this Committee on a bi-annual basis in line with best practice.

2.0 Provisional Outturn 2021-22

- 2.1 Appendix 1 details the 2021-22 projected outturn compared to budget estimates. The appendix shows a projected net increase in the Fund of £227.985m, a positive variance from budget of £86.415m. Some of the main issues which contribute to this variance are detailed below.
- 2.2 **Contributions received from Employers / Employees**
Contributions received are projected to be less than budgeted by £1.176m. The budgeted figure was estimated based on the contributions received as at the end of June 2021 however the actual value of contributions during the summer months has decreased resulting in this variance.
- 2.3 **Pension Payments**
Pension Payments in the year are projected to be marginally greater than budget by £0.098m. This budget was set using the pensions paid as at the end of June 2021 and actual payments made have remained constant at these levels.
- 2.4 **Administrative Costs**
The majority of administrative costs are a recharge from the Council covering the costs of the Pensions Administration team as well as other staff members involved in the fund and support costs. The recharge is made on an annual basis at the year end therefore there is no variance reported.
- 2.5. **Oversight and Governance Costs**
The budget for this heading was based on last years actual costs. Further analysis of the categorisation of these costs identified that some related to Investment Management Fees and as such the projection reflect advice only resulting in the projected variance.

2.6 Investment Management Expenses

These costs have been subdivided into 4 parts: -

- Management Fees
- Performance Related Fees
- Custody Fees
- Transaction Costs

The management fees and performance related fees are linked to market values and increase or decrease in line with the investment returns. It is anticipated that Management Fees will be less than budgeted by £0.638m due in the main to the disinvestment from the Equities in line with the agreed investment strategy.

This underspend is offset by Transaction Costs being greater than was budgeted for. These costs vary from portfolio to portfolio depending on the type of investment managed. In 2021-22, based on current trend analysis, one manager is likely to charge higher than anticipated transaction costs.

The Fund received information on indirect costs from all the fund managers in 2020-21, the majority completing Cost Transparency Initiative (CTI) templates, these are used to estimate the indirect costs for 2021-22. Total Investment Management Expenses contained in Appendix 1 is £14.983m of which £8.856m relates to indirect fees.

Where appropriate, fees incurred by the Pension Fund are agreed with fund managers when signing up to new mandates and these are documented in Investment Management Agreements.

2.7 Net Returns on Investment

This heading represents the profit and losses on disposal of investment and changes in the market value of investments. This is dependent largely on the performance of financial markets and it is impossible to predict accurately. The value of the fund's holdings increased by £205.586m as at the end of October 2021 and this is used as the projected figure.

3.0 Retirement Benefits Update

- 3.1 The Local Government Pension Scheme (LGPS) provides for the early payment of retirement benefits from age 55. Benefits are payable from age 50 on redundancy/efficiency grounds if the member was in the LGPS on 05 April 2006.
- 3.2 Throughout the financial year Services and Employers' make decisions on early retirements and some of the associated costs are charged to the Pension Fund. It is important to note that these costs are met by the Service/Employers' therefore there is no detriment to the fund.
- 3.3 From 1 April 2021 to 31 October 2021. 56 Fife Council employees took early retirement with a strain costs of £0.390m. For other employers, 29 employees took early retirement with strain costs being £1.068m. The majority of Fife Council's early retirements were flexible retirements with no strain costs, whilst the other employers had a higher than normal number of redundancy retirements some of which included substantial strain costs.

4.0 Conclusions

- 4.1 The projected outturn for 2021-22 shows net withdrawal, after dealings with members and investment management fees of £3.525m and a net increase on investments of £231.511m, resulting in a projected net increase in the value of the Fund of £227.985m.

List of Appendices

1. Appendix 1 – 2021-22 Projected Outturn

Background Papers

No background papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act, 1973.

Report Contact

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Fife Pension Fund
2021-22 Projected Outturn

| | Note | Budget | Actual | Projected Outturn | Variance |
|---|------|------------------|------------------|-------------------|-----------------|
| | | £m | £m | £m | £m |
| Dealing with members, employers and others directly involved in the fund | | | | | |
| Contributions Received | | (105.120) | (62.421) | (103.944) | 1.176 |
| Additional Contributions from Employers | | (3.000) | (0.074) | (3.000) | 0.000 |
| Transfers from Other Schemes | | (2.880) | (1.496) | (2.880) | 0.000 |
| | | (111.000) | (63.991) | (109.824) | 1.176 |
| Pension Payments | | 71.340 | 38.593 | 71.438 | 0.098 |
| Lump Sum Benefits | | 19.770 | 13.340 | 19.770 | 0.000 |
| Refund of Contributions | | 0.230 | (0.471) | 0.230 | 0.000 |
| State Premium Schemes | | 0.020 | 0.041 | 0.020 | 0.000 |
| Transfers to Other Schemes | | 4.370 | 1.554 | 4.370 | 0.000 |
| | | 95.730 | 53.058 | 95.828 | 0.098 |
| Net (additions)/withdrawals from dealings with members | | (15.270) | (10.932) | (13.996) | 1.274 |
| Administrative Costs:- | | | | | |
| Support Service Costs | | 1.760 | 0.000 | 1.760 | 0.000 |
| Interest Paid on Benefits | | 0.020 | 0.003 | 0.021 | 0.001 |
| Income Tax on Contributions and Benefits | | 0.140 | 0.021 | 0.140 | 0.000 |
| Other Administrative Costs | | 0.010 | 0.001 | 0.011 | 0.001 |
| Oversight and Governance Costs:- | | | | | |
| Actuarial Fees | | 0.120 | 0.037 | 0.120 | 0.000 |
| External Audit Fees | | 0.040 | (0.012) | 0.040 | 0.000 |
| Hermes Equity Ownership Services | | 0.080 | 0.020 | 0.090 | 0.010 |
| Strategic Investment Advice | | 0.530 | 0.000 | 0.296 | (0.234) |
| Other Oversight and Governance Costs | | 0.060 | 0.037 | 0.060 | 0.000 |
| Investment Management Expenses:- | | | | | |
| Management Fees | | 9.440 | 1.000 | 8.802 | (0.638) |
| Performance Related Fees | | 2.390 | 0.000 | 2.400 | 0.010 |
| Custody Fees | | 0.180 | 0.039 | 0.157 | (0.023) |
| Transaction Costs | | 2.570 | 0.484 | 3.624 | 1.054 |
| Net (additions)/withdrawals including fund management expenses from dealing with members | | 2.070 | (9.303) | 3.525 | 1.455 |
| Returns on investments | | | | | |
| Investment Income | | (24.920) | (10.877) | (26.105) | (1.185) |
| Taxes on income | | 0.180 | 0.000 | 0.180 | 0.000 |
| Profit and losses on disposal of investments and changes in the market value of investments | 1 | (118.900) | (205.586) | (205.586) | (86.686) |
| Net return on investments | | (143.640) | (216.463) | (231.511) | (87.871) |
| Net (increase)/decrease in the net assets available for benefits during the year | | (141.570) | (225.766) | (227.985) | (86.415) |
| Opening net assets of the scheme at 1 April 2021 | | 3,303.552 | 3,303.552 | 3,303.552 | |
| Net increase/(decrease) in the Fund | | 141.570 | 225.766 | 227.985 | 86.415 |
| Proected Closing net assets of the scheme at 31 March 2022 | | 3,445.122 | 3,529.317 | 3,531.537 | 86.415 |

Note 1

The Profit and losses on disposal of investments and changes in the market value of investments is subdivided as follows:-

| | |
|---|------------------|
| | £m |
| Profit or Loss on the disposal of investments | (73.639) |
| Changes in Market Value | (131.947) |
| | (205.586) |

7th December, 2021

Agenda Item No. 6

Pensions Administration Monitoring Report

Report by: Eileen Rowand, Executive Director (Finance and Corporate Services)

Wards Affected: N/A

Purpose

To provide the Committee with monitoring information on the performance of the Pensions Team.

Recommendation(s)

The Committee is asked to

- (1) Consider the level of annual performance relative to the target and to the previous year.
- (2) Feedback any comments or suggestions on the new pensions website to the Pensions Administration Team

Resource Implications

Managing and monitoring team performance is important in providing an efficient service to employers and members and can highlight areas for improvement. Performance is considered and monitored to ensure regulatory timescales and Key Performance Indicators (KPIs) are met.

Legal & Risk Implications

Team performance monitoring ensures regulatory timescales and KPIs are met.

Impact Assessment

Not relevant.

Consultation

Not relevant.

1.0 Background

- 1.1 Key Performance Indicators (KPIs) which support the pension administration function are collated within Altair, the pension administration software. KPIs are reported quarterly to managers and updated in the Council's performance management system, Pentana.
- 1.2 The report is designed to provide formal reporting of administration performance to the Committee.

2.0 Key Performance Indicators and Activity

- 2.1 KPI information for the year from 1 October 2020 to 30 September 2021, and a comparator for the year to 30 September 2020, are detailed in Appendix A. An explanation for performance below the target is provided in the Comments section.
- 2.2 The Team, keeping in mind the Pension regulator's guidance on priority work, are providing a "business as usual" service to members and carrying out all administrative tasks. This includes dealing with a vastly increased number of email enquiries following the annual statements exercise. Training continues to be provided to team members in key areas.
- 2.3 The Team continues to work with the Oracle project team to refine and improve the reports extracted from Oracle for i-Connect purposes. Since the last report, through i-Connect, the pension administration system has been updated with Oracle payroll information for Fife Council and Bureau payrolls up to and including pay date 17 October 2021. Further, all remaining annual benefit statements have now been issued.
- 2.4 The new look Fund website was launched in October. The website, which is developed and maintained by Hymans Robertson, can still be accessed at www.fifepensionfund.org. The new site provides greater search functionality and requires less reliance on Hymans' web support staff. Team members were heavily involved in the lead up to the launch to ensure documentation was transferred over to the new platform, and to familiarise themselves with the new functionality. Members of both the Committee and Board are invited to review the website and feed back any comments or suggestions to the Pensions Administration Team.
- 2.5 Prudential, one of our in-house AVC providers, changed their system last year and this along with the impact of COVID-19 caused them an unforeseen impact on their ability to invest and return payments. This in turn caused delays for administrators receiving AVC fund payments which caused hold-ups in making payments for 19 of our retiring members. The Team contacted the members impacted to establish if they wanted estimated interim lump sum payments to be made in advance of Prudential disinvesting their AVC Funds. Whilst this situation impacted on a small number of retiring members and was far from satisfactory, it has now been resolved.
- 2.6 The Team issued pension saving statements, by the statutory deadline of 6th October, to those members who exceeded the Annual Allowance.

- 2.7 The small number of outstanding Annual Benefits Statements highlighted in the last report were actioned and completed and no remaining statements are outstanding.

3.0 Revised KPIs

- 3.1 As previously reported, the results of the KPI review will be reported to the March committee.

4.0 Conclusions

- 4.1 This report provides members with monitoring information on the Pension Administration Team's performance and service delivery to employers and members of the Fund in the year to 30 September 2021.

List of Appendices

Appendix A – Pension Team Performance Indicators

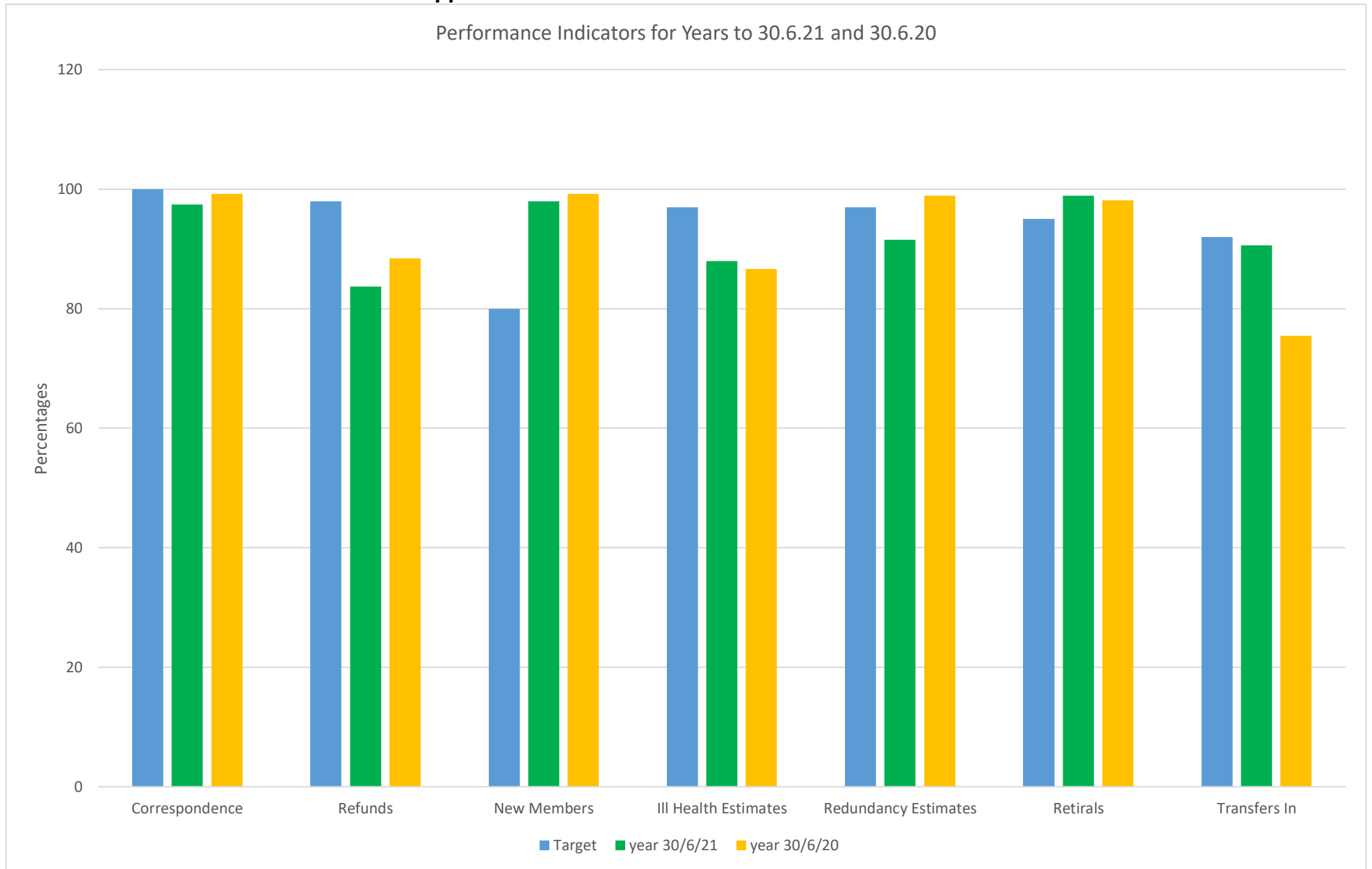
Report Contact





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Appendix A Pension Team Performance Indicators

Performance Indicators for Years to 30.6.21 and 30.6.20



| KPI | From 01.07.2020 to 30.06.2021 | Total Cases 01.07.2020 to 30.06.2021 | From 01.07.2019 to 30.06.2020 | Total Cases 01.07.2019 to 30.06.2020 | Target Days | Target % | RAG Status | Comments |
|-------------------------|--|--|--|--|----------------|-------------|---|--|
| Correspondence | 97.47% | 79 | 99.18% | 122 | 10 days | 100% |  | Two cases outwith target because they required further investigation in order to provide full responses. |
| Refunds | 83.73% | 504 | 88.45% | 901 | 5 days | 98% |  | Refund processing was impacted by the fact that we had recruited two new support assistants prior to the COVID lockdown. The initial implementation of homeworking had an impact on training which had a knock-on effect on the processing of refunds. We are satisfied that this training is now complete and our staff are now up to speed with the process. |
| New Members | 97.95% | 1368 | 99.22% | 2305 | 20 days | 80% |  | |
| Ill health Estimates | 87.93% | 58 | 86.67% | 60 | 13 days | 97% |  | Cases over target were either complex requiring further legislative investigation, or we were reliant on employers to provide historic pay information so we could calculate ill health enhancements. This impacted on the processing of estimates. |

| | | | | | | | | |
|----------------------|--------|-----|--------|-----|---------|-----|--|---|
| | | | | | | | | |
| Redundancy Estimates | 91.53% | 153 | 98.89% | 90 | 13 days | 97% |  | <p>The team dealt with complex cases requiring further legislative investigation.</p> <p>The team also had to liaise with employers about HMRC rules on loss of protected pension age for members retiring before age 55. Workforce change exercises highlighted members aged under 55 who also had other LGPS employments. Members were advised that if they continued in their other employment, they would lose their protected pension age, resulting in significant tax implications. This all had an impact on the time it took to process estimates.</p> <p>For future redundancy exercises, the Team will highlight HMRC rules at the outset to employers.</p> <p>Further there is a marked increase in redundancy quotes compared to previous years.</p> |
| Retirals | 98.87% | 530 | 98.10% | 634 | 5 days | 95% |  | |

| | | | | | | | | |
|--------------|--------|----|--------|-----|---------|-----|---|---|
| Transfers In | 90.62% | 32 | 75.49% | 102 | 10 days | 92% |  | <p>Processing of transfer in cases was impacted by staff absence. However, we have since tackled and cleared a backlog of cases. We are going to extend transfer training to more team members to ensure that we are fully covered to prevent this happening in future.</p> <p>Although outwith the target there is a significant improvement compared to last year.</p> <p>Fewer transfers in through 2020/21 due to fewer new starts but only 3 cases outwith target.</p> |
|--------------|--------|----|--------|-----|---------|-----|---|---|

7th December, 2021

Agenda Item No. 7

Update on 2021/22 Audit Plan and Summary of Audit Reports Issued

Report by: Pamela Redpath, Service Manager, Audit and Risk Management Services.

Wards Affected: All

Purpose

This report provides an update the 2021/22 audit plan and includes a summary of each audit report issued.

Recommendation

The Committee is asked to note the contents of this report.

Resource Implications

None.

Legal & Risk Implications

There are no risk or legal implications arising directly from this report.

Impact Assessment

An EqlA has not been completed and is not necessary as this report is not proposing a change or revision to existing policies and practices.

Consultation

None.

1.0 Background

- 1.1 The Audit Plan for 2021/22 was approved at the Superannuation Fund and Pensions Committee on 9 March 2021.

2.0 Update on 2021/22 Audit Plan

- 2.1 An update is included at Appendix 1.
- 2.2 To enable the Superannuation Fund and Pensions Committee to form an opinion on the effectiveness of the internal control environment, to provide assurance where internal controls are working well and to highlight areas for concern, the Service Manager, Audit and Risk Management, prepares a summary of the audit reports issued by Audit Services at Appendix 2.

List of Appendices

1. Update on 2021/22 Audit Plan
2. Summary of Audit Reports issued

Report Contact

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Update on 2021/22 Audit Plan

| 2021 -22 | Planned Audits | Update on Audit Progress |
|-------------|------------------------|---|
| 5 | Pensions Contributions | Testing in progress – due for completion by 31.12.21. |
| 9 | Performance Management | Set-up in progress - due for completion by 31.3.22. |

| Audit Reports Issued | SUMMARIES |
|--|--|
| <p>1. Finance and Corporate Services</p> <ul style="list-style-type: none"> Bank Mandate Fraud - Pensions (This review is not part of the Pensions Plan for 2021/22 and has already been reported to Standards and Audit Committee.) | <p>Corporate Fraud Management Letter CF017</p> <p>This management letter is a result of a bank mandate fraud for a widower's pension that was reported to the Corporate Fraud Team on 29th June 2021 by the Pensions Team. Action to suspend and then stop the pension had already been taken. The fraud was identified from the National Fraud Initiative (NFI) data match that looks at individuals who have died but continue to be paid a Fife Council pension. This matter has been reported to Police Scotland and the individual has now repaid the money to Fife Council.</p> <p><u>Audit Opinion:</u></p> <ul style="list-style-type: none"> There is evidence to demonstrate that pensions payments, amounting to £6,601.13 (Gross £7,895.39), were paid on a fraudulent bank mandate. <p><u>Findings:</u></p> <p>The following areas for improvement were identified:</p> <ul style="list-style-type: none"> Additional information such as a recent bank statement or utility bill is not supplied with a bank mandate to allow verification of the authenticity of the change required. The LGPS Pensions Application form and bank mandate form don't include a notice stating the consequences of providing false or inaccurate information. <p>Satisfactory action has been agreed for the four substantial recommendations made by 31 March 2022.</p> |

7th December 2021
Agenda Item No. 8

Post Audit Review Report

Report by: Pamela Redpath, Service Manager, Audit and Risk Management Services.

Wards Affected: All

Purpose

This Post Audit Review Report (PAR) relates to internal audit reports issued since 27/02/2020. Actions are complete for all reports issued prior to that period.

Recommendation(s)

Members are asked to note the contents of this report and the progress that has been made in implementing recommendations.

Resource Implications

N/A

Legal & Risk Implications

Non-implementation of recommendations could lead to control failures resulting in potential financial and/or non-financial losses.

Impact Assessment

An IA Checklist is not required because the report does not impact on policy and does not require a decision.

Consultation

Audit Services has consulted with all subjects of the reports.

1.0 Background

- 1.1 Post audit review is a process by which internal audit reviews whether management has implemented its agreed action plan resulting from an audit previously carried out. This provides a structured procedure to following up on non-implementation of recommendations arising from audit reports, including reporting the outcomes to this Committee.
- 1.2 Audit Services uses Pentana, the Council's performance management system, to monitor progress with agreed actions. The use of the Pentana Actions Module means that all recommendations and actions, as agreed by Management and Audit, can be followed up on immediately after they become overdue, resulting in a more proactive approach to improvements.
- 1.3 Audit Reports are uploaded into Pentana when they are issued for each completed audit, and Services update Pentana when recommendations are implemented. This indicates the Service's progress in implementing agreed actions and provides reasons for non-implementation of recommendations. Audit Services carries out follow ups on a sample of audit reports to verify implementation.
- 1.4 Failure to update recommendations in Pentana results in triggers being breached and reminders issued to Services. Non-implementation of recommendations results in instances being reported to Heads of Service and Executive Directors, and then to this Committee.

2.0 Assessment

- 2.1 There have been five internal audit reports issued since 27/02/2020, and one external audit report. Three of the five internal audit reports and the one external audit report still have outstanding actions, some of which have not yet reached their original implementation date. Details of the reports are contained in Appendix 1.
- 2.2 We will continue to monitor progress in implementation of these recommendations and, if necessary, report non-completion to this Committee. However, where Audit Services is satisfied that the risk posed by the non-implementation of a recommendation is low, no further action will be taken.

3.0 Conclusions

- 3.1 The process for Post Audit Reviews provides a structured procedure for following up on non-implementation of recommendations arising from audit reports, including reporting the outcomes to this Committee.
- 3.2 Progress with implementing recommendations has undoubtedly been impacted by Covid-19 in the last year, and outstanding actions will continue to be monitored until they have been completed to the satisfaction of Audit Services.

3.3 Although there are some agreed actions that have remained outstanding for longer periods than anticipated, in my view, in the overall context of the operations, the delayed implementation of these recommendations does not pose a significant risk.

List of Appendices

1. Appendix 1 – Results of Post Audit Reviews issued since 27 February 2020.

Background Papers

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act, 1973:

- No background papers

Report Contact

Hazel Hastie

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Appendix 1 - Results of Post Audit Reviews Issued since 27 February 2020

| Project | Report Number | Date Issued | Recommendations | Satisfactory Actions | Partly Implemented | Not Implemented | | No Longer Applicable | Current Position |
|-----------------------------|---------------|-------------|-----------------|----------------------|--------------------|-----------------------|-------------|----------------------|--|
| | | | | | | Moderate | Substantial | | |
| | | | | | | External Audit | | | |
| Annual Audit Report 2019/20 | P17 | 26/11/2020 | 6 | 5 | 1 | 0 | 0 | 0 | <p>The implementation date for the remaining recommendation has been extended by 2 months to 31 May 2021.</p> <p>The action is partially complete and relates to the review of service control organisation control reports and complementary user entity controls specified by the custodian as part of the governance assurance framework. Control reports have now been sourced and reviewed and training will be given to members on 30.11.21.</p> |

| Project | | | | | | | | | Current Position |
|--------------------------------------|---------------|-------------|-----------------|----------------------|--------------------|-----------------|-------------|----------------------|---|
| | | | Recommendations | Satisfactory Actions | Partly Implemented | Not Implemented | | No Longer Applicable | |
| | Report Number | Date Issued | | | | Moderate | Substantial | | |
| Internal Audit | | | | | | | | | |
| Management of Information - Pensions | P2 | 27/02/2020 | 4 | 1 | 0 | 0 | 3 | 0 | <p>Original due date for completion of the four recommendations was 30/04/2020.</p> <p>Rec 1 - relating to induction records for new employees being retained is now complete.</p> <p>Rec 2 – A destruction register has now been produced but has not been agreed with the Directorate. Therefore, implementation of this has been extended to 31.12.21.</p> <p>Rec 3 - The introduction of an Information Asset Register (IAR) has been delayed by Covid-19 but will be picked up during the corporate refresh. Implementation is now due by 31.3.22.</p> <p>Rec 4 - The review of the retention schedule will be performed in conjunction with the Fife Council Records Manager and has been delayed due to resource capacity. Implementation is now due by 31.3.22.</p> |

| Project | | | | | | | | | Current Position |
|--|---------------|-------------|-----------------|----------------------|--------------------|-----------------|-------------|----------------------|---|
| | | | Recommendations | Satisfactory Actions | Partly Implemented | Not Implemented | | No Longer Applicable | |
| | Report Number | Date Issued | | | | Moderate | Substantial | | |
| Training & Resources | P5 | 25/03/2021 | 5 | 2 | 0 | 0 | 3 | 0 | <p>Recommendations 2 and 3 have now been implemented ahead of the due date of 31.12.21.</p> <p>The remaining three recommendations are not due for implementation until 31.12.21.</p> |
| Compliance with Regulations and Guidance | P6 | 29/03/2021 | 6 | 2 | 0 | 3 | 1 | 0 | <p>Recommendations 2 and 5 have now been implemented.</p> <p>The remaining four recommendations are not due for implementation until 31.12.21.</p> |
| | | | | | | | | | |
| Total | | | 21 | 10 | 1 | 3 | 7 | 0 | |

7th December, 2021

Agenda Item No. 9

National Fraud Initiative 2020/21 Progress

Report by: Pamela Redpath, Service Manager, Audit and Risk Management Services.

Wards Affected: All

Purpose

To advise the Committee of the process to be followed for the 2020/21 National Fraud Initiative Exercise.

Recommendation(s)

The Committee is asked to note the contents of this report, the progress made to date and the outcome of the June 2021 Pensions to DWP Deceased exercise.

Resource Implications

Participation in the National Fraud Initiative requires staff resources to be made available to investigate the matches identified.

Legal & Risk Implications

Participation in the exercise is mandatory.

Impact Assessment

An Equality Impact Assessment is not required because the report does not impact on Council policy and does not require a decision.

Consultation

None.

1.0 Background

- 1.1 As part of the Council's overall fraud strategy, Fife Council takes part in the biennial National Fraud Initiative which is run by Audit Scotland. The exercise complements the Council's own data matching and gives the Council access to data from other organisations.
- 1.2 Fife Council is required by law to protect the public funds it administers. In doing so, it may share information provided to it with other bodies responsible for auditing or administering public funds in order to prevent and detect fraud.
- 1.3 Data matching involves comparing computer records held by one body against other computer records held by the same or another body to identify matches. This is usually personal information. Computerised data matching allows potentially fraudulent claims and payments to be identified, but inclusion within a data matching exercise does not mean that any specific individual is under suspicion. Where a match is found, it indicates that there may be an inconsistency that requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. The exercise can also help bodies to ensure that their records are up to date.
- 1.4 As an outcome from the 2018/19 NFI Exercise it was agreed to undertake the twice-yearly additional matches offered by the Cabinet Office for Pensions to DWP Deceased Records. Pensions rely on notification of deaths to keep their records up to date. In part the Council relies on the "Tell Us Once" process, however, the process is voluntary and relies on the completeness and accuracy of information provided by members of the public at what can be a difficult time. The additional data matches are an effective control in identifying pensioners that have passed away.
- 1.5 The purpose of this report is to advise the progress of the main exercise in January 2021 and additional Pensions to DWP Deceased Match carried out in June 2021.

2.0 Pensions to DWP Deceased Matching

- 2.1 Both exercises identified 110 matches to be reviewed with the following outcomes:
 - 16 pensions with a Gross Annual Pension amount of £42,472.00 have been stopped. This has resulted in over payments of £4,548.31. The Service has contacted the next of kin for three pensions with recovery in progress for £564.85. To date, the Service has been unable to contact the next of kin for the 13 remaining pensions amounting to £3,983.46.
 - In addition to the above there was one fraud identified with a Gross Annual Pension amount of £10,560.10 which was stopped and resulted in an overpayment of £6,601.13. This fraud was reported to Police Scotland and detailed in Audit Report No. CF017. Police Scotland have identified the individual who submitted the fraudulent bank mandate and have initially cautioned him with fraud. Following the caution the full amount has been repaid.
 - Due to timing issues, the Council were already aware of the remaining matches and the pensions had already been stopped.

3.0 Conclusions

- 3.1 The National Fraud Initiative is an important national exercise which complements Fife Council's fraud strategy and widens Fife's data matching by allowing access to external records. The exercise gives assurance to Fife Council that its own data matching strategy is working as well as giving assurances to the External Auditors.
- 3.2 Fife Council is committed to taking part in the current round of the National Fraud Initiative and this report sets out the programme for the Council's involvement in the exercise.

Report Contact

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7th December, 2021

Agenda Item No. 10

Pension Fund Committee Workplan

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to provide the Committee with an overview of the proposed agendas for future meetings of the Superannuation and Pension Fund Committee and the annual cycle.

Recommendation(s)

The Committee is asked to:-

- Consider and comment on the agenda planning document

Resource Implications

There are no resource implications arising from this report.

Legal & Risk Implications

There are no direct legal implications arising from this report.

Impact Assessment

An EqIA checklist is not required because the report does not propose a change or revision to existing policies and practices.

Consultation

None

1.0 Background

- 1.1 In order for the Committee and Pension Board to gain an overview of the content of future meetings, as well as an awareness of the cyclical nature of items, a committee workplan is submitted to each meeting.

- 1.2 There will, of course be specific matters and papers which need to be brought to the attention of Committee in addition to those set out in the workplan. These will be added to the work programme as soon as they become apparent
- 1.3 The workplan is attached as Appendix 1.

2.0 Workplan

- 2.1 The proposed agenda items for the March and June meetings are set out below, based on the usual Committee cycle plus any additional report requests:

March 2022

Superannuation and Pensions Committee

- Review of KPIs
- CEM Benchmarking and Cost Transparency
- Pension Fund Administration Monitoring
- Annual Collaboration and Investment Activity Update
- Fund Investment Update
- Audit plans and reports (internal and external)
- Risk Management Update

June 2022

Superannuation and Pensions Committee

- Training and Development (Policy review and monitoring)
- Pension Fund Administration Monitoring
- Annual Governance Statement
- Annual Report and Accounts 2021-22
- Funding Update
- Audit plans and reports (internal and external)
- Pension Fund Annual review
- Statement of Investment Principles
- Statement of Responsible Investment Principles
- Fund Investment Update

Future Superannuation and Pension Fund Committee dates

The Committee meeting dates for 2022 are set out below:

- 8 March 2022

Future committee dates will be set following the Local Government Elections in May 2022.

3.0 Conclusions

- 3.1 A detailed workplan for the business of the Committee has been prepared and outlines the cyclical nature of reports.

List of Appendices

1. Committee Workplan

Background Papers

No background papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act, 1973.

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APPENDIX 1

SUPERANNUATION AND PENSION FUND COMMITTEE WORKPLAN

| Frequency | Agenda Items | Month |
|----------------------|---|--|
| Bi-annual | Pension Fund Budgetary Control | September December |
| Annually | Audit Plans (internal and external) CEM Benchmarking Annual Collaboration and Investment Activity Update Annual Report and Accounts Annual Governance statement Training and Development Statement of Investment Principles Statement of Responsible Investment Principles Audited Annual Report and Accounts Risk Management Update JISP Effectiveness | March March March June June June June June June September September September |
| Quarterly | Pension Fund Administration Report Fund Investment Update | All Committees |
| Every 3 years | Actuarial Valuation Funding Statement Strategy Investment Strategy | March March June |
| As required | Audit Reports (Internal) Risk Management Policy Reviews | |