

Please note this meeting will be held remotely.

Monday, 26th September, 2022 - 10.00 a.m.

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### 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(s) in particular items on the agenda and the nature of the interest(s) at this stage.
3. **MINUTES** –
  - (a) Pensions Committee meeting on 30th June, 2022. 3 – 7
  - (b) Fife Pension Board comments arising from the meeting on 30th June, 2022. 8 – 9
4. **CHANGE OF MEMBERSHIP - FIFE PENSION BOARD** – The Committee is asked to note that John Wincott Employer Representative (Scheduled Body) Fife Pension Board, had resigned and that nominations from the Scheduled Body Employers would be sought to fill the vacancy.
5. **2022/23 INTERNAL AUDIT PLAN** – Report by the Service Manager - Audit and Risk Management Services. 10 – 15
6. **FIFE PENSION FUND ADMINISTRATION STRATEGY** – Report by the Head of Finance. 16 – 43
7. **PENSION ADMINISTRATION - PERFORMANCE MONITORING REPORT** – Report by the Head of Finance. 44 – 49
8. **PENSION FUND BUDGETARY CONTROL** – Report by the Head of Finance. 50 – 54
9. **STATEMENT OF INVESTMENT PRINCIPLES** – Report by the Head of Finance. 55 – 76
10. **RISK MANAGEMENT - QUARTERLY REVIEW** – Report by the Head of Finance. 77 – 97
11. **PENSIONS COMMITTEE WORKPLAN** – Report by the Head of Finance. 98 – 101

### 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(s) 6 of part 1 of schedule 7a of the Act.

12. **FIFE PENSION FUND - INVESTMENT UPDATE** – Report by the Head of Finance. 102 – 109

**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.**

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19th September, 2022

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**THE FIFE COUNCIL - PENSIONS COMMITTEE – REMOTE MEETING**

30th June, 2022

2.00 p.m. – 5.00 p.m.

**PRESENT:** Committee - Councillors Dave Dempsey (Convener), Sean Dillon, Stefan Hoggan-Radu, Lynn Mowatt, Sarah Neal, Nicola Patrick, Gordon Pryde and Jonny Tepp.

Fife Pension Board – Councillors Tom Adams and Lynn Ballantyne-Wardlaw, Ian Dawson, Robert Graham, Ross Hugh, John Wincott and Vicki Wyse.

**ATTENDING:** Eileen Rowand, Executive Director Finance and Corporate Services, Elaine Muir, Head of Finance, Laura C Robertson, Finance Operations Manager, Pamela Redpath, Service Manager - Audit and Risk Management Services, Carolyn Ward, Audit Team Leader, Anne Bence, Accountant, Karen Balfour, Lead Officer - Banking and Investment, Finance and Corporate Services; Helena Couperwhite, Manager - Committee Services, and Wendy MacGregor, Committee Officer, Legal and Democratic Services.

**ALSO IN ATTENDANCE:** Tim Bridle, Audit Manager, Audit Scotland; Albert Chen, Portfolio Manager and Bruce Miller, Chief Investment Officer, Lothian Pension Fund; and Clare Scott, Independent Professional Observer.

**APOLOGIES FOR ABSENCE:** Committee – Councillor Colin Davidson.

Fife Pension Board - Colin Paterson.

**1. DECLARATIONS OF INTEREST**

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

**2. MEMBERSHIP OF THE COMMITTEE**

Decision

The Committee noted its membership as detailed on the Agenda and welcomed new members to the Fife Pension Board - Councillors Tom Adams and Lynn Ballantyne-Wardlaw; and Ian Dawson, Unison.

**3. MINUTE**

The Committee considered:-

- (a) the minute of the Superannuation Fund and Pensions Committee of 29th March, 2022

Decision

The Committee agreed to approve the minute.

- (b)/

## 2022 PEC 2

- (b) comments arising from the Fife Pension Board meeting of 29th March, 2022.

### **Decision**

The Committee noted:-

- (1) the comments arising from the meeting on 29th March, 2022; and
- (2) the verbal updates provided by the Head of Finance on areas within the Fife Pension Board comments.

#### **4. UPDATE ON 2021/22 AUDIT PLAN AND 2021/22 ISSUED AUDIT REPORTS**

The Committee considered a report by the Service Manager, Audit and Risk Management Services providing an update on progress towards delivering the 2021/22 Audit Plan as well as a summary of findings from the Internal Audit Reports finalised since the last meeting of the Superannuation Fund and Pensions Committee.

### **Decision**

The Committee noted the contents of the report which included a summary of findings as detailed at Appendix 1 of the report.

#### **5. ANNUAL AUDIT REPORT 2021/22**

The Committee considered a report by the Service Manager, Audit and Risk Management Services providing an independent annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework and a summary of the key activities of Audit Services during the period from which the opinion was derived.

### **Decision**

The Committee considered and noted the contents of the report.

#### **6. PENSION FUND ANNUAL GOVERNANCE STATEMENT 2021/22**

The Committee considered a report by the Chief Executive providing background information on the processes adopted for preparing the Pension Fund Annual Governance Statement, for inclusion in the Pension Fund Annual Report and the annual accounts. A copy of the Corporate Governance Statement was appended to the report for Committee's approval.

### **Decision**

The Committee:-

- (1) noted the contents of the report; and
- (2) approved the draft Pension Fund Annual Governance Statement 2021/22.

7./

**7. FIFE PENSION FUND - ANNUAL REPORT AND ACCOUNTS 2020/21**

The Committee considered a report by the Executive Director, Finance and Corporate Services including the unaudited Annual Report and Accounts for Fife Pension Fund for the financial year 2021/22.

**Decision**

The Committee considered and noted the Fife Pension Fund unaudited Annual Report and Accounts 2021/22.

The Committee adjourned at 3.45 p.m.

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The Committee reconvened at 3.55 p.m.

**8. PENSIONS ADMINISTRATION - PERFORMANCE MONITORING REPORT**

The Committee considered a report by the Head of Finance providing monitoring information on the performance of the Pensions Administration Team, including an update on other activities undertaken by the Team.

**Decision**

The Committee:-

- (1) acknowledged the level of annual performance relative to the target and to the previous year; and
- (2) noted the range of additional activities carried out by the team over the last quarter.

**9. RISK MANAGEMENT - QUARTERLY REVIEW**

The Committee considered a report by the Head of Finance providing a quarterly update on the 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 place.

**Decision**

The Committee:-

- (1) reviewed and considered the contents of the report; and
- (2) noted that the risks would be reviewed on a regular basis and reports would be submitted to the Pensions Committee on a quarterly basis.

**10./**

**10. PENSION FUND TRAINING AND DEVELOPMENT**

The Committee considered a report by the Head of Finance to review the Training Policy, performance and progress in respect of implementation of the training policy for members of the Pensions Committee and Fife Pension Board. Highlighted in the report was the requirement for all Pension Committee and Board members to undertake training in line with the agreed policy, including the Pension Regulator online learning toolkit, within the next six months.

**Decision**

The Committee:-

- (1) noted that a varied training programme had been provided over the last financial year on a range of topics;
- (2) approved the continued approach to training; and
- (3) agreed to attend a minimum of 14 hours of training and to provide details of attendance, including the completion of the Pension Regulators toolkit, within six months of their appointment to the Pensions Committee and Fife Pension Board.

**11. PENSION FUND COMMITTEE WORKPLAN**

The Committee considered a report by the Head of Finance providing an overview of the proposed business for future meetings of the Pensions Committee and the annual cycle.

**Decision**

The Committee noted the contents of the agenda planning document.

**12. PENSION FUND - INVESTMENT UPDATE**

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(s) 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 at 31st March, 2022. A verbal update of manager monitoring activity and of investment strategy was provided at the meeting on 30th June, 2022.

**Decision**

The Committee noted:-

- (1) the Fund's strategic asset allocation and current allocations relative to target;
- (2)/

## 2022 PEC 5

- (2) the value of the Fund's assets on 31st March, 2022 after returning -3.0% over the quarter;
  - (3) that the Fund was making steady progress towards its target allocations, and;
  - (4) that longer term absolute returns were strong and relative returns were above both the asset and liability benchmarks.
-

## **DRAFT MINUTE OF FIFE PENSION BOARD MEETING – REMOTE MEETING**

**30<sup>th</sup> June 2022**

**PRESENT:** John Wincott (Chair), Councillors Tom Adams and Lynn Ballantyne-Wardlaw, Ian Dawson, Robert Graham, Ross Hugh, Vicki Wyse.

### **APOLOGIES**

**FOR ABSENCE:** Colin Paterson

#### **1. WELCOME**

The Chair welcomed everyone to the Board and, in particular, to the new appointments to the Pension Board. He provided an overview of the structure and relationship between the Pensions Board and Pensions Committee and how they interact to allow the required scrutiny of the Committee Governance.

#### **2. MINUTES OF PENSION BOARD MEETING**

The minutes of the last meeting were previously approved by email.

#### **3. PENSIONS COMMITTEE PAPERS**

There was a brief discussion over the agenda and papers and areas were identified and most areas were straightforward however clarification would be sought if the presentation of the reports to the Committee did not provide an explanation.

Key areas for discussion related to:

- Cybersecurity
- A refresh of the Constitution for Trade Union Membership

The Chair also provided some background on the investment strategy for the new members of the Board

### ***MEETING ADJOURNED FOR PENSIONS COMMITTEE***

The Pension Board reconvened after the Committee meeting and agreed that there were no decisions taken that needed a formal request for review. The Chair welcomed the further development of the training plan going forward, that it was a robust process and it was positive to see the work on risk management and cyber risk in particular.



4. **PROVISION OF ADMINISTRATIVE AND OTHER SUPPORT TO THE PENSION BOARD**

The chair advised that there had been further discussion on the provision of administrative and other support to the Board with the Administering Authority and the IPO and this would be held over to the next meeting for the IPO to advise the Board of her recommendations on the format and type of support the Board should be requesting and work is ongoing within the Administering Authority to accommodate the request once the Board has confirmed what was required.

5. **APPOINTMENT OF CHAIR AND SECRETARIES TO THE BOARD**

The chair advised he was due to step down as the Chair position is required to rotate between employer and trade unions representatives on an annual basis. It was discussed that as not all Trade Union Representatives were at the meeting, the existing chair would continue until the next meeting of the Pension Board and the representatives should meet and discuss with a view to recommending the new Chair at that meeting and also recommend a member for the role of secretary. After discussion within the employer representatives Vicki Wyse agreed to continue as secretary for the Employer representatives.

**ACTION NOTE – Trade Union Representatives to meet and agree their nominations for Appointment of Chair and Secretary for next Meeting.**

6. **AOB**

There were no other items of business raised at the meeting.

26th September, 2022

Agenda Item No. 5

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## 2022/23 Internal Audit Plan

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**Report by:** Pamela Redpath, Service Manager, Audit and Risk Management Services

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**Wards Affected:** All

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### Purpose

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To submit to the Pensions Committee the Fife Pension Fund's Internal Audit Plan for the 2022/23 financial year.

### Recommendation

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Pensions Committee is asked to review and approve the 2022/23 Internal Audit Plan as detailed at Appendix A.

### Resource Implications

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This Internal Audit Plan has been developed within the agreed resources.

### Legal & Risk Implications

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The Internal Audit Plan is designed to review the areas of highest risk, taking into account results from previous years' audit reviews.

Internal audit is required to have sufficient coverage of the Pension Fund's activities to allow the Service Manager, Audit and Risk Management Services to give an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control.

### Impact Assessment

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An EqlA has not been completed and is not necessary as the report does not propose a change or revision to existing policies and practices.

### Consultation

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The Executive Director of Corporate Services, Head of Finance and the Convener of the Pensions Committee have been consulted on the content of this report.

## 1.0 2022/23 Internal Audit Plan

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- 1.1 The Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013 and revised most recently in April 2017, set out the requirements in respect of professional standards for all internal audit service providers within the public sector. The key standards within the PSIAS that relate to the preparation of the Internal Audit Plan are as follows:
- Standard 2010 – Planning, which states that *“the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”*.
  - Standard 2020 – Communication and Approval, which states that *“the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations”*.
- 1.2 In practice, for the Fife Pension Fund, a risk-based plan outlining the planned programme of work to be undertaken is developed annually by Fife Council’s Audit Services. Due to the environment in which pension funds operate and the potential corresponding challenges, the Audit Plan requires to be sufficiently flexible enough to enable it to respond to changes in the Pension Fund’s risks and priorities when they present themselves.
- 1.3 In developing the plan, the risk management framework was taken into consideration. A Risk Management – Quarterly Review report containing the Fife Pension Fund’s Risk Register was considered by the Pensions Committee at its meeting on 30 June 2022. The 2022/23 Internal Audit Plan has been cross-referenced where appropriate to risks within it, using corresponding risk descriptions and inherent (original) risk scores.
- 1.4 Whilst the Fife Pension Fund is responsible for establishing and maintaining an appropriate framework of governance, risk management and control, a fundamental role of internal audit is to provide Elected Members and senior management with independent and objective assurance surrounding those arrangements, whilst at the same time adding value and supporting improvement.
- 1.5 The Service Manager, Audit and Risk Management Services is required to provide an annual internal audit opinion on the adequacy and effectiveness of the Pension Fund’s framework of governance, risk management and control. With that in mind, the Internal Audit Plan should include a programme of work that is sufficient enough to enable that opinion to be formed / provided. The annual opinion is included within the Internal Audit Annual Report submitted to the Pensions Committee.
- 1.6 Key components of the internal audit planning process include having a clear understanding of the Pension Fund’s functions / activities, associated risks and range and breadth of potential areas for auditing. This is known as establishing the Audit Universe. The Pension Fund’s high level Audit Universe can be found at Appendix B. The planning process is also informed by developments at both a national and local level as well as other relevant background information. To capture potential areas of risk and uncertainty, including emerging risks, key stakeholders have also been consulted.
- 1.7 The proposed portfolio of work to be included within the 2022/23 Internal Audit Plan is summarised at Appendix A. For each of the reviews included in the

plan there is a summary of the proposed coverage along with the inherent (original) risk score, informed by the Pension Fund's Risk Register. It is anticipated that there will be internal controls in place to mitigate those risks, however, the level of controls and reliance that can be placed on them cannot be confirmed until the audit reviews have been undertaken. The proposed coverage has, in the main, been compiled on the basis of discussions and review of relevant background information gathered as part of the audit planning process. In line with standard working practices, a more detailed Terms of Reference document, containing background information, scope and specific objectives will be compiled for each review and agreed with the client prior to commencement of the audit fieldwork.

- 1.8 The nature and scope of internal audit work continues to be diverse, and therefore, a varied portfolio of professional skills and technical competencies is required to successfully deliver an audit plan. It is challenging to ensure the continued provision of all necessary skills in an in-house team and, therefore, if considered appropriate for the area under review, technical advice and guidance will be obtained.
- 1.9 For the 2022/23 financial year, the total productive days available for audit work is of the order of 55 days; approximately 90% of those days will be assigned to specific audit reviews, with the balance being allocated across several other activities, including the provision of advice and guidance and following up on progress made towards implementing previously agreed recommendations. An additional 5 days has been set aside for planning, including time required to compile the Internal Audit Plan and Annual Report for the Fife Pension Fund.
- 1.10 The 2022/23 Internal Audit Plan, including estimated resources, has been prepared utilising information currently available, however, it is possible that the plan may require to be amended during the financial year to reflect changing risks and priorities. As required under the PSIAS, any significant changes to the planned programme of work will be reported to the Pensions Committee. The Head of Finance will also be kept informed of developments regarding internal audit by the Service Manager, Audit and Risk Management Services through regular meetings.

## **2.0 Internal Audit Plan - Progress Reports**

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- 2.1 Standard 2060 of the PSIAS entitled Reporting to Senior Management and the Board states that *"the chief audit executive must report periodically to senior management and the board on...performance relative to its plan"* and that *"reporting and communication to senior management and the board must include information about the audit plan and progress against the plan"*. In addition, Standard 1110 of the PSIAS entitled Organisational Independence supports this requirement, stating that *"examples of functional reporting to the board involve the board receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan"*.
- 2.2 At a senior management level, this requirement is discharged by the Service Manager, Audit and Risk Management Services through established direct reporting channels to the Head of Finance (to whom the Service Manager, Audit and Risk Management Services reports administratively). In relation to the Pensions Committee, updates towards delivering the 2022/23 Internal Audit Plan will be submitted periodically.

## 3.0 Conclusions

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- 3.1 The 2022/23 Internal Audit Plan (Appendix A) has been compiled following an internal audit planning exercise, including consultation with key stakeholders and consideration of relevant background information.
- 3.2 The Audit Plan requires to be sufficiently flexible enough to enable it to respond to changes in the Pension Fund's risks and priorities when they present themselves and, consequently, will be kept under continuous review. Any significant changes to the planned programme of work will be reported back to the Pensions Committee.
- 3.3 Updates towards delivering the 2022/23 Internal Audit Plan will be submitted periodically to the Pensions Committee.

### List of Appendices

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- A. 2022/23 Internal Audit Plan
- B. High-level Audit Universe

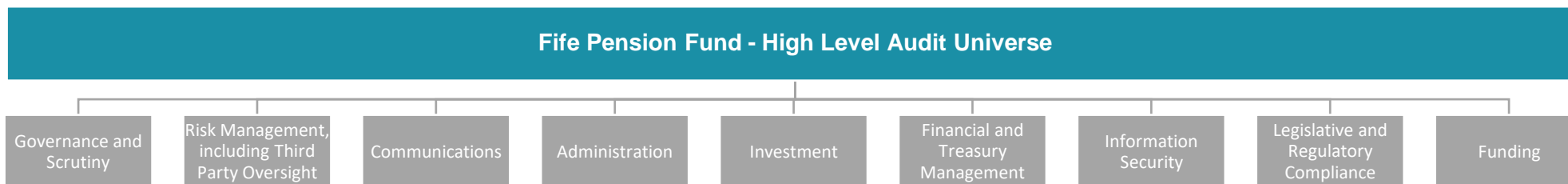
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2022/23 INTERNAL AUDIT PLAN		
<i>Audit Review / Activity</i>	<i>Proposed Coverage</i>	<i>Risk Description - Inherent (Original) Risk Score</i>
Cyber Security	Review of the arrangements in place to ensure that the risk of cyber-crime is being appropriately mitigated.	As a result of a cyber security attack, there is a risk that data is compromised and not secure and systems do not operate – High.
Risk Management Arrangements	Review of Fife Pension Fund’s risk management arrangements against recognised good practice.	-
Follow-up Review	Specific review undertaken by internal audit staff to provide formal assurances to management and Elected Members that recommendations previously agreed have been implemented.	-
Post Audit Reviews (PARs)	Completion of the PAR exercise, whereby formal assurances are obtained from management that internal audit recommendations have been implemented.	-
Advice and Guidance	Provision of ad-hoc support to assist services in respect of specific queries and contribute to the delivery of improvements in the Fife Pension Fund’s framework of governance, risk management and control.	-
Specific Investigations	To respond to requests for advice and assistance as required in respect of cases of suspected fraud, corruption or malpractice.	-



26<sup>th</sup> September 2022

Agenda Item No. 6

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## **Fife Pension Fund Administration Strategy**

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Report by: Elaine Muir, Head of Finance

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Wards Affected: All

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### **Purpose**

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This report provides an updated Administration Strategy for Fife Pension Fund. The document is intended to replace the previous strategy agreed by the Committee in June 2015 and will underpin the upcoming review of Key Performance Indicators (KPIs).

### **Recommendation(s)**

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It is recommended that the Committee consider and approve the revised Administration Strategy

### **Resource Implications**

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There are no direct resource implications identified at this stage.

### **Legal & Risk Implications**

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Provision for the preparation for the Administration Strategy is included in the Local Government Pension Scheme (Scotland) Regulations, which sets out what the strategy should include. There is a risk that not having and communicating a strategy could result in both the administering authority and scheme employers, not carrying out their respective functions effectively.

### **Impact Assessment**

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

### **Consultation**

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The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.



## 1.0 Background

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- 1.1 In accordance with Regulation 57 of the Local Government Pension Scheme (Scotland) 2018 (the regulations) an administering authority may prepare, maintain, and publish a written statement setting out their policy concerning administration matters, and that the administering authority and the scheme employers participating in the Fund must then have regard to the strategy when carrying out their respective functions.
- 1.2 Previous reports outlined the intention to complete a KPI (Key Performance Indicators) review for the Pension Fund. As work advanced on the Administration Strategy it became apparent that this strategy would form the foundations for the KPI review and future performance reporting. Future KPIs will assess performance relative to key issues contained in the strategy and will be brought to a future committee date for consideration and approval.

## 2.0 Administration Strategy

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- 2.1 Fife Pension Fund has been working with Hymans Robertson to review and update the Administration Strategy. This has been an extensive piece of work for the Administration Team who have carried out a full review resulting in an improved and more comprehensive strategy which, once adopted, will provide the foundation for the review of KPIs. The revised strategy is attached at Appendix 1.
- 2.2 Revised Strategy
  - 2.2.1 The revised strategy is more detailed and provides greater clarity on the roles and responsibilities of both the Administering Authority and Scheme Employers. The strategy also sets out performance monitoring arrangements and targets for all parties as well as the potential consequences of poor performance.
  - 2.2.2 There are two major changes to the current strategy which are to include the requirement for any new scheme employers to use i-connect as a means of transferring data. At this time there are only two small employers who do not use i-connect and the strategy sets out that we will work towards supporting existing employers to do so.
  - 2.2.3 Secondly, the updated strategy sets out the circumstances and approach to dealing with poor performance of scheme employers who could be charged to reflect the additional work as a result. It should be noted that charging would be a last resort and the strategy sets out the administering authority approach to dealing with poor performance before implementing charges.
- 2.3 Consultation Process
  - 2.3.1 The regulations require that during the preparation of the strategy, administering authorities must consult with scheme employers and any other persons it considers appropriate.
  - 2.3.2 During the consultation process, the draft strategy was shared with scheme employers, Fife Pension Board, the Independent Professional Observer and both the convener and vice-convener of this committee.

- 2.3.3 All parties were asked to provide general comments on the strategy as well as specific commentary on the use of i-connect, the appropriateness of charging and compliance with defined roles and responsibilities. The consultation was undertaken using MS Forms and there was a 35% response rate from scheme employers.
- 2.3.4 Feedback from the consultation was positive with employers recognising that it was important to have a clear and concise document that clearly sets out the roles and responsibilities of all parties.
- 2.3.5 Concern was raised around the abrupt introduction of charging, particularly for 3<sup>rd</sup> sector employers. However, the assurance is given to Committee and to Employers that charging for poor performance will be a last resort and all avenues of support will be pursued with any employer that is experiencing difficulties. The approach to charging is set out in on page 7 of the strategy and it should be noted that certain circumstances will need to exist before charging is considered.
- 2.3.6 Comments were also received around the process and expectations in respect of sourcing of IAS19 and FRS102 reports for annual accounts work. This is not explicitly set out in the strategy at this time but will be considered as a addition for future versions.
- 2.3.7 During the consultation, one other scheme employer has indicated that they will consider the use of i-connect in the future. This is a positive response, and an action will be followed up with them.
- 2.3.8 Further feedback related to communications and consideration will be given to communication with employers and the potential use of a separate dedicated email address.
- 2.4 Next Steps
- 2.4.1 The strategy now incorporates regular review periods at least annually with a formal review and approval by Committee to take place on a triennial basis following the valuation.
- 2.4.2 Following approval, the strategy will be published on the Fife Pension Fund website as well as being sent to all scheme employers and to Scottish Ministers in accordance with the regulations.
- 2.4.3 Adoption of the revised strategy will also provide the foundation to develop a wider ranging and more appropriate suite of KPIs.

## **3.0 Conclusion**

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- 3.1 The Administration Strategy provides a consolidated statement of the roles and responsibilities of both the administering authority and scheme employers on administration matters as they carry out their respective functions in the Fund. The strategy is an important part of the Fund's governance arrangements.

**List of Appendices**

Appendix 1 – Fife Pension Fund – Draft Administration Strategy

**Background Papers**

None

**Report Contact**

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# Pensions Administration Strategy

# Pension Fund Administration Strategy

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# Introduction

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## Regulatory Background

This is the Pension Administration Strategy of Fife Pension Fund (“the Fund”), administered by Fife Council (“the administering authority”).

This Statement has been produced in accordance with regulation 57 of the Local Government Pension Scheme (Scotland) Regulations 2018 (“the Regulations”). The Regulations provide that the administering authority may prepare, maintain and publish a written Statement setting out their policy concerning administration matters, and that the administering authority and the scheme employers participating in the Fund must then have regard to that strategy when carrying out their respective functions.

The Regulations also require that the administering authority must consult with its participating employers (and any other persons it considers appropriate) in preparing or reviewing this Strategy

In addition, regulation 65 of the Regulations allows an administering authority to recover additional costs incurred by the administering authority from a participating employer where, in its opinion, those costs are directly related to the poor performance of that employer. Where this situation arises, the administering authority is required to give written notice to the employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

## Aims and objectives

The purpose of the Strategy is to:

- Support the provision of a high-quality pension service to Fund members delivered through efficient working practices;
- Confirm the role of scheme employers and sets out their expected levels of performance;
- Confirm the role of the administering authority and sets out its expected levels of performance;
- Ensure that the Fund is operated in accordance with LGPS regulations, overriding legislation and any relevant Codes of Practice issued by The Pensions Regulator;
- Set out how the performance of the administering authority and scheme employers will be monitored and reported;
- Explain what actions might be taken by the administering authority in response to a scheme employers poor performance or non-compliance;
- Confirm how the administering authority will communicate with its employers
- Detail the resources and support that is available for scheme employers to access

This strategy statement has been produced in consultation with all participating employers in the Fund and becomes effective from 26 September 2022. It will be reviewed for accuracy at least annually and will be revised to reflect changes to:

- LGPS Regulations;
- Other overriding legislative requires and/or Pension Regulator code of practice;
- Policies determined by the administering authority; and
- Administrative practices required of the administering authority and scheme employers in fulfilling their respective functions.

The strategy will be formally approved by Committee on a triennial basis.

Levels of performance and compliance achieved by both the administering authority and scheme employers will be reported;

- To the Fund's Pension Committee and Pension Board as part of regular administration performance reporting; and in the Fund's Annual Report and Accounts.
- The statement will be published to all participating Fund employers via the Fife Pension Fund website.

In no circumstances, however, does this Strategy override any provision or requirements of the LGPS Regulations or any overriding legislative requirements.

## Queries

Any enquiries in relation to this Administration Strategy should be forwarded to [Pensions.Section@fife.gov.uk](mailto:Pensions.Section@fife.gov.uk)

# Roles and Responsibilities

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## General

The Fund is committed to providing a high-quality pension service to both members and employers, ensuring all members and dependants receive their correct pension benefit entitlement at the correct time. These aims are best achieved where the administering authority and scheme employers work in partnership and understand their respective roles and responsibilities.

As well as setting out the roles and responsibilities of both the administering authority and scheme employers this Strategy specifies the level of service each is expected to provide to each other, and the performance measures used to evaluate them.

## The administering authority's roles and responsibilities

The high-level responsibilities for the administering authority are to:

- administer the LGPS in respect of all scheme members (active, deferred, pensioner and survivor members) in accordance with this Strategy
- maintain and review the Fund's statements, policies and reports and all other matters relating to the governance of the scheme
- communicate and engage with scheme employers on all LGPS and related matters
- provide support/training to employers
- maintain and develop an effective web presence for the benefit of scheme members and scheme employers

# The scheme employer's roles and responsibilities

The high-level responsibilities for a scheme employer are to:

- communicate the benefits of the LGPS to eligible staff
- ensure the correct level of monthly pension contributions are collected and paid over to the Fund by no later than the 19<sup>th</sup> of the month following the month of deduction (or 22<sup>nd</sup> of the month if remitted electronically)
- report information and data to the administering authority as set out in this Strategy
- keep up-to-date with Fund related communications
- provide a prompt response to information requests from the administering authority

A detailed description of the key administering authority and scheme employer responsibilities relating to the Fund's administration are set out in **Appendix 1**.

## Primary employer contact

Each scheme employer must nominate a person who will act as the administering authority's primary employer contact. This person's contact details should be passed to the administering authority and kept up to date. There may be additional contacts for finance, payroll, etc, but the primary contact will be the first port of call where any issues or disputes arise.

See **Appendix 2** for the primary employer contact form. This should be completed by the scheme employer and submitted to the administering authority immediately on first participating in the Fund and then immediately any change to the primary employer contact occurs.

It is the scheme employer's responsibility to ensure that the primary employer contact and all other key staff contact details held by the administering authority are correct, and to notify the administering authority of any changes immediately.

The scheme employer must ensure the nominated primary contact (and other key staff) is aware of the scheme employer duties and keep up to date with all guidance and instruction issued by the administering authority from time to time.

The scheme employer must ensure that they retain a good level of understanding of the LGPS and have a succession plan in place for their nominated contacts, including the primary employer contact.

The primary employer contact should ensure all information provided to the administering authority is correct by having an appropriate quality review process in place prior to information being submitted to the administering authority.



# Performance Monitoring

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## General

The document provides the actions that may be taken where standards are not met by scheme employers and/or when persistent non-compliance occurs.

Due in large part to the annualised nature of the pension accrual for a Career Average Revalued Earnings (CARE) pension scheme, the importance of accurate and timely membership data returns to the administering authority has never been greater. The requirements and demands of running a CARE pension scheme, such as the LGPS, means that the administering authority must receive accurate and timely membership data from all scheme employers. This is in order that it can fulfil its statutory and organisational responsibilities, such as completion of member retirements, the production of annual benefit statements and compliance with the pension dashboards disclosure requirements.

The administering authority has, therefore, made the decision to work towards all monthly data returns being made via the administration platforms iConnect functionality for all existing scheme employers. All new joiner, opt-out, retirement notifications, etc. must be included on the monthly data submission for the month that the member joined, opted, out, retired, etc. or the month after if this is not possible.

If a scheme employer fails to provide the required data on a monthly basis via iConnect and continues to provide information on an annual basis, the administering authority may charge an additional fee in order to process data using this legacy arrangement. Details of the additional fee that will be charged can be seen in the table below.

The use of iConnect for data returns will be mandatory for any new scheme employers admitted to the scheme.

## Monitoring and engagement

Various means will be employed, as determined from time to time, to assist in monitoring compliance with this Strategy. More detailed methods may be included in a service level agreement (SLA) between an individual scheme employer and the administering authority.

Methods may include:

- Internal/external audit review of processes and internal controls;
- Performance monitoring against scheme employer tasks and functions noted in this Strategy;
- Performance monitoring the administering authority's own performance against internal key performance indicator as noted in this Strategy;
- Training sessions offered by the administering authority on the most pertinent issues affecting scheme members and scheme employers;
- Annual scheme employer pension forums;
- Member complaints;
- Internal Dispute Resolution Procedure (IDRP).

Using the above means the administering authority will monitor progress against this Strategy. This information will be reported to the Fund's Pension Committee and Pension Board alongside any remedial action taken where the expected standards are not being met. In addition, key performance indicators relating to the administering authority and scheme employers' performance will be reported in the Fund's Annual Report and Accounts.

## **Employer poor performance**

Regulation 65 of the Regulations provides that an administering authority may recover from a scheme employer any additional costs associated with the administration of the scheme incurred because of a poor level of performance.

## **Circumstances where additional costs may be recovered**

The circumstances where additional costs may be recovered from the scheme employer are:

- Persistent failure to provide relevant information to the administering authority, scheme member, or any other interested party in accordance with specified performance targets (either relating to the timeliness of delivery or the quality of information);
- Instances where performance by the scheme employer results in a loss to the Fund, e.g. any overpayment resulting from inaccurate information supplied by the scheme employer, costs associated with the assessment of benefits, interest on late payment of benefits, scheme tax charges, etc.;
- Failure to deduct and pay over correct employee and/or employer contributions within the standard timescales;
- Failure to pay any other amounts due to the Fund, e.g., actuarial strain payments;
- Instances where the performance of the scheme employer results in fines being levied against the administering authority by the courts, the Pensions Regulator, the Pensions Ombudsman or any other regulatory body.

Where an administering authority wishes to recover any such additional costs it must give written notice stating:-

- The reasons, in their opinion, that the scheme employer's poor performance contributed to the additional cost;
- The amount of the additional cost incurred;
- The basis on how the additional cost was calculated; and
- The provisions of this Strategy relevant to the decision to give notice.

## **The approach by the administering authority when dealing with poor scheme employer performance**

When dealing with poor performance from a scheme employer the administering authority will follow the approach set out below.

- Write to the scheme employer noting the administering authority's areas of concern regarding the scheme employer's performance and offer training or a meeting to address the issue.
- If no improvement is made within one month of the above date (or within an agreed timescale following a meeting with or delivery of a training session to the scheme employer), or where the matter in question is not a regular event and no improvement is made at the next occasion that that same matter occurs, and the offer of training or a meeting has not been accepted, the administering authority will issue a formal written notice. The notice will set out the area(s) of concern that have been identified,

the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.

- An invoice and formal written notice will then be issued to the scheme employer which sets out calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of unsatisfactory performance, in accordance with the fee scale set out in this Strategy.

## Charges to be applied as a consequence of employer's poor performance

In instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pension Regulator, Pensions Ombudsman or other regulatory body, these costs will be recoverable immediately.

Details of the additional fee charged are set out below.

Activity	Charge
Late payment of employer and/or employee contributions and any other payments due.	A fixed penalty of £150 per occurrence plus interest as defined in the LGPS Regulations.
Late provision of monthly or year-end contributions returns in prescribed format	A fixed penalty of £500 per occurrence plus £100 for each week plus part week of continued non-provision.
Failure to provide a copy of discretions policy or latest version	A fixed penalty of £250 for failing to supply a copy plus a further £50 charged on each occasion that a policy is requested or is chased by an officer and is not supplied
Failure to provide required member information monthly via iConnect	Charge £50 per form and a further charge of £30 per month the form is outstanding
Failure to respond or provide any other required information within timeframes.	A fixed penalty £25 per case for each case chased after the original deadline has passed.
Charges for persistent incorrect and incomplete information provided by the scheme employer to the administering authority (where the case has to be returned for incorrect information on more than 2 occasions).	£50 per case
Fines levied against the administering authority from the Pensions Regulator that are directly attributable to the scheme employer's performance.	Amount requested by the Pensions Regulator.
Fines levied against the administering authority from the Pensions Ombudsman that are	Amount requested by the Pensions Ombudsman.

Activity	Charge
directly attributable to the scheme employer's performance.	
Delay causing payments from the Fund to be treated as unauthorised payments for HMRC purposes.	Cost of amount of the unauthorised payment.
Fines from any other statutory body incurred as a result of the scheme employers actions.	As levied.

## Communication

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It is vital that good communication channels exist between the administering authority, scheme employers and scheme members. This helps ensure the good running of the Fund by reducing errors and improving efficiency and alerts scheme members to the value to them of the LGPS, which itself aids recruitment, retention and the motivation of the workforce and negates misleading media information.

In order to support scheme employers the administering authority will:

- Work closely with them to improve areas where issues have been identified as a result of performance monitoring;
- Keep under review all processes and procedures and implement improvements where required;
- Provide access to policy and strategy documents, including the administering authority's discretions policy, communications policy, communication and engagement strategy, data strategy and annual report;
- Provide guidance to scheme employers on a range of topics through procedural guides, newsletters, e-alerts, employer forum, etc.
- Provide training to scheme employers as and when required or on request from the scheme employer. All new employers in the Fund will also be provided with training. Employers will be expected to attend any such training, particularly where significant performance issues have been identified.

In addition to the above the administering authority will be happy to attend employer specific events to assist employers to understand their responsibilities in relation to their participation in the LGPS.

Scheme employers are expected to support the administering authority with any promotional activities that they are carrying out, including assisting with distributing e-communications and/or and promoting online access to the scheme.

The administering authority will also communicate with scheme members, using the following means to do so:

- Fund website - <https://www.fifepensionfund.org/> - containing information about the Fund and the LGPS.
- Member Self Service - <https://pension.fife.gov.uk/> - an on-line self-service facility giving scheme members access to their own pension records.
- Annual Benefit Statements – issued to all active and deferred scheme members.

- Newsletters – issued at least annually, bringing attention to important information, such as changes to scheme rules.
- One to One meeting – as required, to discuss personal details related to a scheme member’s participation in the Fund
- Presentations – available to scheme members on specific pension related matters, such as HMRC pension tax rules or pre-retirement sessions.

## Breaches of the Law

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Where an employer does not actively engage with the Fund to resolve issues and/or consistently fails to meet its responsibilities under the LGPS Regulations, the administering authority (or stakeholders such as the Pension Board) has a statutory duty to report any breach to The Pensions Regulator. Similarly, stakeholders (such as the Pension Board) may report the Fund to The Pensions Regulator if it is believed that a breach has occurred in respect of its duty as scheme administrator.

If deemed to be materially significant, the Pensions Regulator has the authority to take prompt and effective action to investigate and correct the breach and its causes, and, where appropriate, to notify any members whose benefits have been affected.

The Pensions Regulator may impose a penalty under section 10 of the Pensions Act 1995. At the time of creating the Strategy, the maximum amount of a penalty in relation to a breach is £5,000 in the case of an individual and up to £50,000 in any other case.

Penalties may be imposed on any party who has legal requirements or responsibilities relating to the management or administration of the scheme, and anyone else who could be subject to any of the Pensions’ Regulator’s statutory powers of investigation and enforcement, such as employers and professional advisers.

## Other charges

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In line with its Funding Strategy Statement the administrative costs of running the Fund are predominantly charged to scheme employers through their contribution rates. However, it should be noted that, in addition to additional costs already set out in this Strategy other costs may be passed on to a scheme employer, including:

- Work commissioned specifically on behalf of a scheme employer will be charged to them for that work. This includes IAS19/FRS102 valuations, actuarial modelling, assessments or advice, and/or legal advice and technical advice.
- Where, because of the employer’s failure to notify the administering authority of the final retirement details in a timely manner, payment of the retirement lump sum is not made within 30 days from the day the member’s retirement, the administering authority may issue an employer with a written notice of unsatisfactory performance and may charge the employer for the interest payment made.

# Performance Standards

## Administering Authority

In addition to the legislative and regulatory requirements set out previously, the administering authority and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. This section outlines the key responsibilities of the administering authority, and the performance standards scheme employers and scheme members should expect. It is focused on the key activities which involve interaction with scheme employers and/or scheme members and should not be viewed as an exhaustive list.

Function	Requirement
<b>Governance</b>	
Regularly review the Fund's pension administration strategy and consult with all scheme employers	An annual review will take place for accuracy and material changes to the regulations.  A formal review, including consultation with employers will take place on triennial basis
Review the Fund's Funding Strategy Statement at each triennial valuation, following consultation with scheme employers and the Fund's actuary.	As part of each formal triennial valuation, to be published by 31 March following the valuation date
Review the Fund's Communication policy statement	At least annually, as part of Fund's annual report and accounts. To be published within 30 days of any revision being agreed by the Pension Committee
Review the Fund's Governance and compliance statement	Annually, as part of Fund's annual report and accounts. To be published within 30 days of any revision being agreed by the Pension Committee
Formulate, keep under review and publish policies in relation to all areas where the administering authority may exercise a discretion within the scheme	Review annually or following any material change in scheme rules amending existing discretions or introducing new ones. To be published within 30 days of any revision being agreed by the Pension Committee
Publish the Fund's Annual report and Financial Statement	By 30 September following the year-end or following the issue of the auditor's opinion
Notify scheme employer of issues relating to scheme employer's unsatisfactory performance	Within 10 working days of performance issue being identified.

Function	Requirement
<b>General administration/member data</b>	
Provide support for scheme employers through a dedicated employer website, technical notes, forums, employer bulletins/alerts and day to day contact	Ongoing support as required
Organise and provide coaching sessions on an employer's roles and responsibilities	Upon request of scheme employers or as administering authority officers deem necessary
Notify scheme employers and scheme members of changes to the scheme rules	Within 60 days of regulatory change
Produce annual benefit statements to active and deferred members as at 31 March each year	By 31 August following the year-end
Produce and issue annual allowance pension saving statements each year to members who have exceeded their annual allowance	By 6 October following the end of tax year (subject to receipt of all relevant information from the scheme employer)
Publish and keep up to date all forms required for completion by scheme members or employer	30 days from any revision
Issue and keep up to date web-based employer guides and factsheets	Within 30 days from date of change/amendment
Issue and keep up to date scheme guide and all other literature for issue to scheme members	Within 30 days from date of change/amendment
Set up new joiner and provide statutory notification to member	Within 30 days of receipt of correct notification from a scheme employer
Process changes in employees' circumstances which may impact on pension benefits	Within 30 days of receipt of correct notification from a scheme employer
Process transfer-in quotations	Within 10 working days of receipt of all required information
Transfer notification of credited membership/accrued pension account to be notified to the scheme member	Within 10 working days of receipt of payment
Transfer-out quotations processed	Within 10 working days of receipt of all necessary information

Function	Requirement
<b>General administration/member data</b>	
Transfer-out payments processed	Within 7 working days of receipt of all necessary information
Determine necessary category in relation Aggregation/Interfund cases and issue notification to member of service credit and accrued pension account	Within 10 working days of receipt of all necessary information
Process divorce valuation	Within 10 working days of receipt of all necessary information
Notify the scheme employer of any scheme member's election to pay additional pension contributions, including all required information to enable deductions to commence	Within 10 working days of receipt of election from a scheme member
Process scheme member requests to pay/amend/cease additional voluntary contributions	Within 7 working days of receipt of request from scheme member
Process deferred benefits calculations and issue notification to former scheme member	Within 20 working days of receipt of all necessary information
Process deferred benefits into payment	Within 7 working days of receipt of election and all necessary information
Process refund of pension contributions	Within 10 working days of receipt of all necessary information
Provide retirement options to members	Within 10 working days of receipt of all necessary information
Process new retirement benefits following receipt of options	Lump sum payment plus first payment of pension within 7 working days of receipt of all necessary documentation. Thereafter pension payment on monthly payroll run
Acknowledge notification of a death of a scheme member to their personal representatives/next of kin	Within 5 days of receiving the notification
Determine recipient of a death grant	Within 5 working days of receipt of all necessary information and representations enabling a decision to be made.
Make payment of death grant	Within 7 working days of making determination regarding recipient



Function	Requirement
<b>General administration/member data</b>	
Provide notification of benefits payable to dependents	Within 7 working days of receiving the required information
Provide an answer or acknowledgement to scheme members/scheme employers/personal representatives/dependents and other authorised persons	Within 10 days from receipt of enquiry
Undertake data reconciliation exercises against Fund and scheme employer payroll system	Periodically as deemed appropriate

Function	Requirement
<b>Outsourcing/new employer admissions</b>	
Arrange for the setting up of separate admission agreement/new scheme employers including the allocation of assets and notification to the Secretary of State	Within 30 days of all necessary information being in place
Arrange for all new prospective admitted bodies/new scheme employers to undertake, to the satisfaction of the Fund, a risk assessment of the level of bond or guarantee required in order to protect other scheme employers participating in the Fund	To be completed prior to the body being admitted timings predicated on timely submission of staff profile for submission to the Fund Actuary
Undertake ongoing review of the level of risk and/or bond requirement for existing admitted bodies	Annual review or upon material change in an employer's structure.

Function	Requirement
<b>Contributions</b>	
Consult with scheme employers on the outcomes of the triennial valuation	As part of agreed triennial valuation action plan
Notify scheme employers of contribution requirements for the 3 years effective from April following the triennial valuation date	By 31 December following the triennial valuation date
Notify new scheme employers of their contribution requirements on joining the Fund	Within 30 days of receiving request
Carry out termination valuations on admitted bodies or scheme employers ceasing participation in the Fund	Immediately following notification of exiting scheme employer
Provision of IAS/FRS reports requested by scheme employers	Within agreed timescales following receipt of request from scheme employer.

# Scheme employer

This section outlines the role and responsibilities of all scheme employers in the Fund and the performance standards they are expected to meet, to enable the administering authority to deliver an efficient, quality and value for money service.

The Scheme employer must maintain employment records for each member for the purposes of determining membership and entitlement to benefits (this will need to include full-service history for the period of LGPS membership held under the employment, as well as any gaps in service and whether these were repaid).

The employer must keep a full pay history for the 13 years, ending 31 March, before the member leaves the Scheme.

Function	Requirement
<b>Governance</b>	
Designate a named individual to act as the primary employer contact, who is the main contact with regard to any aspect of administering the LGPS and confirm to the administering authority.	Within 30 days of becoming a scheme employer or within one month of the change in officer role.
Appoint person for stage 1 of the pension dispute process (IDRP) and provide full up to date contact details to the Fund	Within 30 days of becoming a scheme employer or following the resignation of the current adjudicator
Notify the administering authority that the stage 1 decision has been issued and provide a copy of the determination	Within 7 working days of making the determination.
Appoint an independent registered medical practitioner qualified in occupational health medicine or arrange contract with third party, in order to consider all ill health retirements applications and agree appointment with administering authority	Within 30 days of commencing participation in the scheme or date of resignation of existing medical officer
Formulate, publish and keep under review policies in relation to all areas where the employer may exercise discretion within the LGPS	A copy of the policy document is to be submitted to the administering authority within one month of a change in policy
Distribute any information provided by the administering authority to scheme members/potential scheme members (e.g. financial information or generic news alerts)	In a timely manner as required

Function	Requirement
<b>General administration/member data</b>	
Determine eligibility for LGPS membership – including the date membership starts.	At the date of employee joining employment or, if different, the date employee becomes eligible for LGPS membership.
Determine elements of pay to be treated as pensionable for the purposes of the LGPS	At the date of employee joining employment or, if different, the date employee becomes eligible for LGPS membership.
Notify the administering authority of new joiners via monthly submission.	New joiner information will be submitted electronically by scheme employers in a format agreed with the administering authority. Notifications must be included on the monthly data submission for the month that the member joined, or the month after if this is not possible
Provide monthly return to administering authority providing a breakdown of employee of contribution, CARE/FTE pay and service-related data	Within the same timescales as the remittance of employer and employee contributions
To provide annual year end return to administering authority	Completed and validated return to be submitted no later than 30 April following year end
To action requests for data reconciliations of member records	To fully answer data reconciliations/member queries from the Fund within three weeks of receipt of data
Provide new employees with information regarding the scheme, including access to the member guide and the Fund's membership form (required in order that the administering authority can establish previous pension entitlements and apply for transfer details on behalf of the member)	Within 30 days of the member's first day of entry to the scheme
Direct all eligible new employees to the member guide to the pension scheme on the Fund website	At date of employee appointment
Provide confirmation of any change in a scheme member's circumstances that might impact their LGPS entitlements (e.g. move into or out of the 50/50 scheme, family related leave, etc.)	Within 10 days of the event or receipt of information

Function	Requirement
<b>General administration/member data</b>	
Notify the administering authority of early leaver/opt over three months for member's entitled to a refund or deferred benefit.	Notifications must be included on the monthly data submission for the month that the member left, or the month after if this is not possible
Confirm actual leaving data for an opted-out member	Notifications must be included on the monthly data submission for the month that the member left, or the month after if this is not possible
Notify the administering authority when a member leaves with immediate entitlement to benefits (normal, late, ill health or flexible retirement) and issue retirement option form to the employee.	Notifications must be included on the monthly data submission for the month that the member retired, or on an earlier monthly return. Only in exceptional cases should notification be made on a later monthly return
Notify the administering authority of the death of an employee and provide next of kin details.	Within 3 working days of knowledge of the death of the employee
To determine based on medical opinion and advice whether an ill health award is to be made and determine where relevant which tier 1 or 2. Arrange for the completion of the appropriate forms and provision of IRMP certificate where ill health retirement is to be awarded.	No later than 30 days prior to the date of retirement.
To submit request for estimates for forthcoming retirement.	No later than three months before retirement, where known

Function	Requirement
<b>Outsourcing/new employer admissions</b>	
Notify the administering authority where an outsourcing of services which will involve a TUPE transfer of staff to another organisation is anticipated so that information can be provided to assist in the decision	At the point of deciding to tender
Notify the administering authority of lead decision making and operational officers in circumstances where a prospective new employer or admitted body may request to	At commencement of business review project

Function	Requirement
<b>Outsourcing/new employer admissions</b>	
join the Fund as a result of re-organisation or TUPE transfer	
Work with administering authority officers to arrange for an admission agreement to be established	A minimum of 90 days in advance of the date of contract
Notify the administering authority if the scheme employer ceases to admit new scheme members or is considering terminating membership of the Fund	As soon as decision is agreed

Function	Requirement
<b>Contributions</b>	
Ensure correct employee contribution rate to be applied each scheme year in line with the appropriate contribution banding table	Immediately upon commencing scheme membership, reviewed as per policy on adjusting employee contribution rates.
Strain on the Fund payments – ensure that where applicable additional fund payments are paid to the Fund (for e.g. redundancy / flexible retirement).	Within 30 days of receipt of invoice from the administering authority
Remit employer and employee contributions to the Fund.	By 22nd of the month following deduction of payroll if made electronically or 19th if paid by cheque.
Implement changes to employer contribution rates as instructed by the administering authority at the date specified by the Fund Actuary.	In line with the Rates Adjustment Certificate as per the triennial valuation
Ensure and arrange for the correct deduction of employee contributions from a member's pensionable pay including any period of child related leave, trade dispute or other forms of leave of absence from duty	In accordance with payroll cycle
Manage the deduction of all additional contributions or amend such deductions, as appropriate	As required
Arrange for the deduction of AVCs and payment over of contributions to the AVC provider(s) and inform the administering authority as required	In accordance with payroll cycle

Function	Requirement
<b>Contributions</b>	
Refund any employee contributions when employees opt out of the pension scheme within 3 months and submit notification to the administering authority	As part of the next available payroll following receipt of the election to opt-out
Payments in respect of all work carried out on behalf of the scheme employer by the Fund's Actuary and connected data quality assurance undertaken by the Fund's Administration Team	To be paid within 30 days of the invoice from the Fund

# Appendix 1.

## Roles and Responsibilities

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### **Administering authority**

The key responsibilities of the administering authority are summarised below:

- To appoint an actuary for the purposes of the triennial valuation of the Fund and to provide periodical actuarial advice when required.
- To appoint an Additional Voluntary Contributions provider
- Ensure that, where required, employer admission agreements with the administering authority are in place
- To comply with any orders or instructions issued by the Pensions Regulator or the Pensions Ombudsman. Where the order or instruction requires financial compensation or a fine to be paid from the Fund, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the employer, the sum concerned shall be recharged to the employer
- To issue forms, newsletters, booklets and such other materials as are necessary in the administration of the scheme, for scheme members and for use by scheme employers.
- To provide accurate, timely data to the Fund actuary for the purposes of the triennial actuarial valuation of the Fund and for scheme employer accounting reports requested (e.g. IAS19/FRS102 reports).
- To provide assistance to scheme employers in regard to the pension implications of outsourcing services and to deal with any related bulk transfers of pension rights.
- To comply with HMRC reporting requirements regarding pension benefits.
- To ensure that sufficient information is issued in the form of newsletters, booklets and other materials to satisfy the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996.
- To ensure that steps are taken at all times to pay benefits to appropriate beneficiaries only and to reduce the possibility of fraud.
- To ensure compliance with the (UK/EU) General Data Protection Regulation legislation including use of appropriate secure data transfer methods.

### **Scheme employer**

The key responsibilities of a scheme employer are summarised below:

- To maintain employment records for each scheme member for the purposes of determining membership and entitlement to pension benefits.
- To determine a scheme member's pay (or fees) for the purpose of pension contributions and to determine final pay (if required both final salary and CARE regulation definitions) for the purposes of calculating benefits due from the scheme
- To determine annually a scheme member's contribution rate on the basis of the scheme member's rate of pensionable pay having regard to guidance issued.
- To collect, make payment and account for the deduction of the correct rate of monthly pension contributions payable by both the scheme members and the employer.
- To appoint a person designated to receive appeals from employees on 'first instance decisions' under the LGPS Regulations
- To notify, in writing, every person whose rights or liabilities are affected by a 'first instance decision' made by the employer under the Regulations



- To ensure all information is provided as required regarding a scheme members' employment, using electronic transfer of data where at all possible (especially for bulk exercises) and agreed with the administering authority. Data provided should comply with the General Data Protection Regulations and secure transfer methods used.
- To use an independent Medical Officer qualified in Occupational Health Medicine, (who has been approved by the administering authority), in determining ill-health retirement and provide the administering authority with a relevant certificate where appropriate.
- To provide additional information as required for actuarial valuation, monthly data transfer, data matching or communication purposes. The specification for such exercises will be provided by the administering authority and may, after consultation, be modified from time to time.
- To provide prospective scheme members with basic information about the scheme using, where appropriate, material provided by the administering authority.
- To ensure those not joining the scheme are fully aware of the benefits given up and that equalities principles are met.
- To pay the administering authority, by lump sum and within prescribed time limits, any amounts arising as a result of the scheme employer's decision to increase annual pension under the Regulations.
- To pay the administering authority, by lump sum payment and within prescribed time limits, any strain cost arising from a decision made by the scheme employer to award early payment of benefits.
- To ensure the administering authority is informed about, and Government guidance is followed in respect of, any transfer of members in respect of an outsourcing of service arrangement, and any subsequent changes to that arrangement which would impact on those members.
- To inform the administering authority of any planned changes to their pension provision for employees, including whether the scheme is open to new employees, bulk transfers of employments or any redundancy exercises as soon as known.
- To provide details of officers (specifically the primary employer contact) or representatives who are to receive employer communications issued by the administering authority and keep these up to date as necessary. Details should be kept up to date as necessary.

# Appendix 2.

## Primary employer contact form

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### EMPLOYER NOMINATED PRIMARY EMPLOYER CONTACT FORM

The following officer is hereby nominated as Primary employer contact of [ ] to the administering authority to deal with all issues relating to the administration of the pension scheme:

<b>Name</b>	
<b>Position</b>	
<b>Signature</b>	
<b>Telephone No.</b>	
<b>Email</b>	
<b>Postal Address</b>	

Please provide details of other scheme employer contacts that are authorised to act as an employer contact

<b>Name</b>	
<b>Position</b>	
<b>Signature</b>	
<b>Telephone No.</b>	
<b>Email</b>	

<b>Name</b>	
<b>Position</b>	
<b>Signature</b>	
<b>Telephone No.</b>	
<b>Email</b>	

## Alternative Formats

This information can be made available in large print, braille, audio CD/tape and Gaelic on request by calling **03451 55 55 00**.

**British Sign Language** – please text (SMS) 07781 480 185

**BT Text Direct** – 18001 01592 55 11 91

### Language Lines

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Arabic خط هاتف اللغة العربية: 03451 55 55 77

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Bengali বাংলায় আলাপ করার জন্য টেলিফোন লাইন: 03451 55 55 99

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Cantonese 中文語言熱線電話: 03451 55 55 88

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Polish Polskojęzyczna linia telefoniczna: 03451 55 55 44

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Urdu اُردو زبان کے لیے ٹیلیفون نمبر 03451 55 55 66

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26 September 2022

Agenda Item No. 7

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## **Pensions Administration - Performance Monitoring Report**

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**Report by:** Elaine Muir, Head of Finance

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**Wards Affected:** N/A

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### **Purpose**

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To provide the Committee with monitoring information on the performance of the Pensions Administration Team as well as providing an update on other activities undertaken by the Team over the last quarter.

### **Recommendation(s)**

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The Committee is asked to

- (1) Consider the level of quarterly performance relative to the target and to the same quarter of the previous year.
- (2) Note the range of additional activities carried out by the team over the last quarter

### **Resource Implications**

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Managing and monitoring team performance is important in providing an efficient service to both 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**

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Team performance monitoring assists with ensuring compliance with regulatory timescales and KPIs are met.

### **Impact Assessment**

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Not relevant.

### **Consultation**

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The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

## 1.0 Background

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- 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 management team and to Committee.
- 1.2 The report is designed to provide formal reporting of administration performance to the Committee.

## 2.0 Key Performance Indicators

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- 2.1 Performance is now measured on a quarterly basis to provide a better picture of recent performance and to avoid continued reference to past cases which is repetitive when measuring annual performance.
- 2.2 KPI information for the quarter 1 April 2022 to 30 June 2022, and a comparator for the for the same quarter are detailed as Appendix A. An explanation for the variance from the target is provided below.
- 2.3 Performance for the first quarter has been on or above target for 4 of the 7 key processes reported, dealing with correspondence and processing new members continues to be on target and performance is consistent with this quarter last year.
- 2.4 Dealing with redundancy estimates is also on target and there is an improvement in performance compared to this quarter last year. Although on target for this quarter this year the performance on dealing with retirals is slightly below that of this quarter last year. This is likely to be temporary as it is due to staff absence and the retirement of an experienced member of the team.
- 2.5 Performance on dealing with refunds has improved to 97% of cases being dealt with within 5 days compared to 79% last year following the introduction of revised processes for early leavers and subsequent refunds taking time to roll out. Performance for the quarter is slightly below the target of 98% because two cases required verification of the information that had been supplied and this resulted in them running over the target time
- 2.6 The performance of processing of ill health retirals remains below target. The process for dealing with ill health retirals remains complex and often is dependent on information from scheme employers to complete the process. Further, to improve the information being shared with the member, estimates are now calculated using actual pay information rather than estimated levels. This information needs to be requested from the employer payroll. Additionally, changes to the process have been made by the largest scheme employer regarding the release of completed estimates. Both changes have an impact on the time taken to complete the process from start to finish, therefore the target and number of days need revisited as part of the KPI review work.
- 2.7 For this quarter the performance on Transfers In is marginally below target as a result of three cases being over their due date. In one case it was discovered that the member's date of birth had not been verified this held up finalising the transfer. The two other cases were delayed due to temporarily reduced resources and have now been allocated to other team members to progress.

## 3.0 Administration Team Activity

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### 3.1 Business as usual – Annual Tasks

Throughout the last quarter, the team have been successful in completing all year end processes for all scheme employers. This involves ensuring all contributions and pay details are updated in Altair.

- CARE roll-up programme
- CARE revaluation
- The Team have received and processed the year-end schedules from our employers who are not on i-Connect.

3.1.1 All annual benefit statements were processed for Active and Deferred members well in advance of the statutory deadline of 31 August. The statements are published on Members Self Service accounts. Notification that annual benefit statements were ready was communicated to members by email, uploading newsletters to both Members Self-Serve and on the website. A news article was also posted on Fife Council's intranet page and in the weekly staff bulletin.

3.1.2 The annual process to calculate and pay additional pension increase on deferred lump sums which came into payment between 12 April 2021 and 11 April 2022, in accordance with the Pensions Increase Act, has been successfully completed within the statutory timescale.

3.1.3 The bulk calculation of Annual Allowance has been run to system and members who have reached, or are close to reaching, their Annual Allowance have been identified. Work has started to update Altair and correct any errors.

### 3.2 Staff Training and development

3.2.1 Team members have attended training on the aggregation of records and have subsequently rolled this out across the team and developed new procedures. This means that there will more team members that can assist with tackling the amount of work that gets generated with this type of task. This is in line with reducing over-reliance on specific team members.

3.2.2 Training has also been carried out on Annual and Lifetime Allowance, and procedure notes will be developed. Previously Annual Allowance has been carried out by one member of the Team. This training this means that there will be team members who understand Annual Allowance and can perform this task, and reduces over reliance on specific team members, reducing single points of failure.

### 3.3 Employers

3.3.1 The team continues to liaise with employers about the information required for the McCloud project. Significant progress has been made with data being received from external scheme employers in line with the project plan and deadlines advised to them. As the largest employer in the scheme, work is continuing to source the relevant data from Fife Council, for Fife Council payroll and all the Bureau payrolls that Fife processes. This is being progressed in collaboration with colleagues in Payroll Team and Business Technology Solutions. Owing to the number of

members involved and the change of payroll systems time sourcing the data is complex but is expected to be provided within the requisite timescales.

- 3.3.2 Alongside the collation of data the team are proactively developing and testing spreadsheet tools to assist with the collation of the data into the prescribed format for processing and upload to Altair to allow the calculations to be done. For the smaller employers in the scheme the data is ready to be uploaded to Altair.
- 3.3.3 The Scottish Public Pensions Agency advised that the legislation setting out the underpin remedy is expected to be made later this year.
- 3.3.4 Team members have visited and provided training to one scheme employer on the use of i-connect. The Team is keen to get all Employers signed up to use i-Connect as this would benefit their employees as well as ensuring records hold up-to-date information. This is reflected in the revised Administration Strategy.

## 4.0 Conclusions

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- 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 quarter to June 2022.
- 4.2 Other activities continue to be advanced by the Team including a review of processes and training.

### List of Appendices

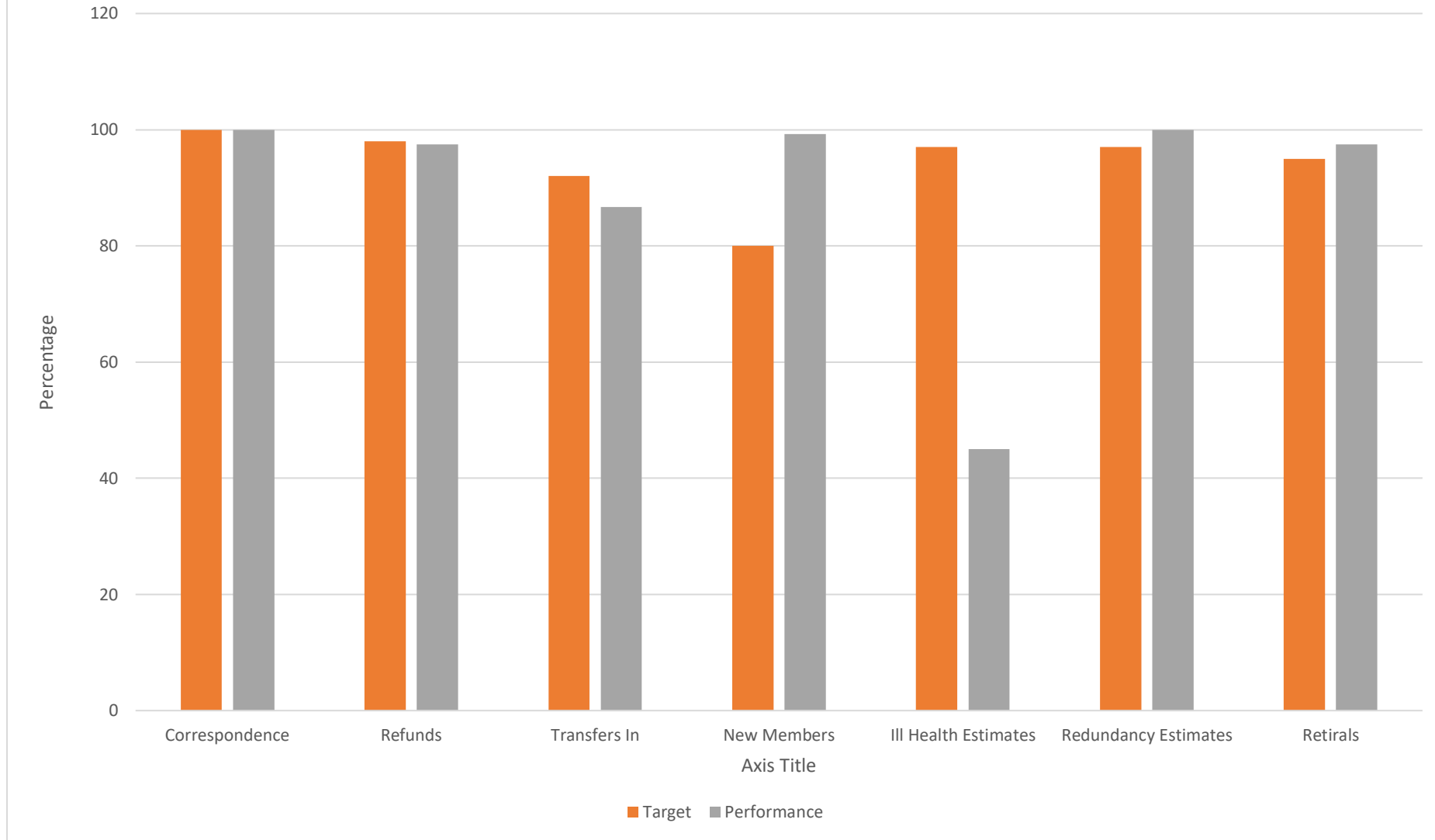
Appendix A – Pension Team Performance Indicators

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### Performance Indicators Quarter 1 2022/23





KPI	From 01.04.2022 to 30.06.2022	Total Cases 01.04.2022 to 30.06.2022	From 01.04.2021 to 30.06.2021	Total Cases 01.04.2021 to 30.06.2021		Target %	RAG Status	Comments
Correspondence	100%	19	100%	18	10 days	100%		
Refunds	97%	194	79%	88	5 days	98%		
New Members	99%	970	99%	480	20 days	80%		Fife Council's auto-enrolment date occurred in this quarter. This, as well as the easing of covid restrictions that were impacting on recruitment, resulted in a significant increase in new members.
Ill health Estimates	45%	20	61%	18	13 days	97%		There have been changes to the procedure and the Team now request pay from employers before running calculations. Previously pay on Altair was used for estimate and only asked for pay if calculation went to actual. Another change is that rather than Team sending estimate statement to HR, we now have to wait on HR notifying us to release the statement to the member
Redundancy Estimates	100%	1	100%	5	13 days	97%		
Retirals	97 %	199	99%	146	5 days	95%		
Transfers In	86%	15	90%	10	10 days	92%		This is slightly below target due to requirement to source additional information and reallocation of tasks following staff absence.

26 September 2022

Agenda Item No. 8

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## Pension Fund Budgetary Control

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Report by: Elaine Muir, Head of Finance

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Wards Affected: All

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### Purpose

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The purpose of this report is to provide the committee with details of the provisional outturn of the Pension Fund for 2021-22 and the Budget for 2022-23.

### Recommendation(s)

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The committee is asked to:-

- Note the provisional outturn for 2021-22
- Agree the indicative budget for 2022-23
- Note that further reports in relation to the financial position of the Fund will be brought forward on a bi-annual basis.

### Resource Implications

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Throughout 2021-22, the fund remained cash-flow positive from activities dealing with members with a net addition of £21.244m experienced. The fund experienced a net addition of £4.916m as management expenses were lower than the net addition from dealing with members. The fund experienced an increase in value of £228.159m as a result of strong investment performance and investment returns.

### Legal & Risk Implications

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

### Impact Assessment

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

### Consultation

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None

## 1.0 Background

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- 1.1 The report presents the provisional outturn position for 2021-22 for the Pension Fund, provides commentary on the budget compared to the provisional position for the year and analysis of significant variances. The provisional outturn position is extracted from the draft Annual Report and Accounts which were considered by Committee on 30<sup>th</sup> June 2022.
- 1.2 The report also presents details of the indicative budget for 2022-23.
- 1.3 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 be presented to this Committee on a bi-annual basis in line with best practice.

## 2.0 Provisional Outturn 2021-22

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- 2.1 Appendix 1 details the 2021-22 provisional outturn compared to budget estimates. The appendix shows a provisional net increase in the Fund of £228.159m, a positive variance from budget of £141.570m. Some of the main issues which contribute to this variance are detailed below.
- 2.2 **Contributions received from Employers / Employees**  
As reported previously to this Committee, contributions received were greater than budgeted by £9.778m. The budgeted figure was estimated based on the contributions received as at the end of June 2021 however the actual value of contributions varies from month to month. As pension contributions are received 4 weekly rather than monthly during 2021-22 this occurred 14 times in the year rather than the normal 13. This is a very rare occurrence and was not factored into the budget calculation when it was set.
- 2.3 **Pension Payments**  
Pension Payments in the year were also greater than budget by £0.518m. As with the contributions budget, this was set using the pensions paid as at the end of June 2021 but variations in payments during the year has resulted in this variance.
- 2.4 **Pension Lump Sum Benefits**  
Lump Sum Benefits were greater than budgeted levels by £2.113m. This budget is included as a guide to members of the likely costs and is based on previous year trend analysis. The actual costs incurred are linked largely to employer's workforce change scheme and are dependent on the circumstances of each individual employee.
- 2.5 **Transfers to and from other Schemes**  
Transfers to other Schemes are lower than budgeted by £0.754m. These budgets are very difficult to predict with any accuracy, and again are included as a guide based the fund experience in previous years.

## 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. Both costs were lower than budget reflecting the performance of the investments in 2021-22.

These underspends are offset by Transaction Costs being greater than was budgeted for. These costs vary from portfolio to portfolio depending on the type of investment managed and again the budget is a guide only.

The Fund has received information on indirect costs from all the fund managers in 2021-22, the majority completing Cost Transparency Initiative (CTI) templates. Total Investment Management Expenses contained in Appendix 1 is £13.991m of which £7.832m 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 increasing by £194.926m a net increase of £228.159m bringing the fund total at the end of the financial year to £3,531.319m.

# 3.0 Indicative Budget 2022-23

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3.1 The majority of expenditure and income is out with the control and influence of the Pension Fund therefore it is difficult to predict the budgets with any level of certainty. On this basis, an indicative budget for 2022-23 is prepared and also detailed in Appendix 1. The significant assumptions made in calculating this budget are detailed below.

### 3.2 Contributions Received from Employers / Employees

Contributions received are expected to increase as a result of pay awards and changes in membership. The budget has been set based on actual contributions received in the first 3 months of this financial year and an estimated pay increase reflective of the assumptions in the Council's budget planning. However, as pay negotiations continue it is likely that there will be increased levels of contributions.

### 3.3 Pension Payments

Pension payments are expected to rise as a result of CPI increases and changes in membership. As with the contributions budgets this budget has been set based on the payments made in the first 3 months of this financial year, which reflects the pension increase applied from 01 April 2022.

### 3.4 **Lump Sum Benefits**

These budgets are linked to employers' workforce change scheme and are dependent on the circumstances of each individual employee. The budget for 2022-23 has been included as a guide to members and has been set using trend analysis from previous years.

### 3.5 **Transfers to and from other Schemes**

These budgets are very difficult to predict with any accuracy as they are dependent on member choices in any financial year. The budget has been set as a guide to members using previous year's trend analysis.

### 3.6 **Investment Management Expenses**

These costs are linked to market values and as such are difficult to predict with any accuracy. The budget for this year has been set using previous year's trend analysis, current year data and the information received in the CTI templates from the fund managers at the end of 2021-22.

### 3.7 **Net Returns on Investments**

These costs are linked to market values and increase or decrease in line with the investment returns, as such they are impossible to predict with any accuracy. The Investment Strategy provides an Investment Objective to achieve a return of at least gilts +2.4% per annum. Based on this objective, it would be expected that the investment returns would be an increase to the fund of £127.100m.

### 3.8 **Administrative and Oversight and Governance Costs**

There is a degree of control over these costs as they represent the internal administration costs along with the costs associated with our external advisors. Again, the budgets for these are calculated using previous year's trend analysis.

## 4.0 **Conclusions**

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4.1 The provisional outturn for 2021-22 shows net increase to the fund of £4.916m from the dealings with members and a net increase on investments of £223.243m, resulting in a provisional net increase in the value of the Fund of £228.159m.

4.2 The indicative budget for 2022-23 shows net increase of £1.200m from the dealings with members and a net return on investments of £152.960m, resulting in a projected net increase in the value of the Fund of £154.160m.

### **List of Appendices**

1. Appendix 1 – 2021-22 Provisional Outturn and 2022-23 Indicative Budget

### **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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**Fife Pension Fund**  
**2021-22 Provisional Outturn and 2022-23 Indicative Budget**

	Note	2021-22 Budget	2021-22 Provisional Outturn	2021-22 Variance	2022-23 Budget
		£m	£m	£m	£m
<b>Dealings with members, employers and others directly involved in the fund</b>					
Contributions Received		(105.120)	(114.898)	(9.778)	(112.720)
Additional Contributions from Employers		(3.000)	(1.976)	1.024	(2.810)
Transfers from Other Schemes		(2.880)	(1.965)	0.915	(2.660)
		(111.000)	(118.839)	(7.839)	(118.190)
Pension Payments		71.340	71.858	0.518	75.500
Lump Sum Benefits		19.770	21.883	2.113	20.340
Refund of Contributions		0.230	0.238	0.008	0.230
State Premium Schemes		0.020	(0.000)	(0.020)	0.010
Transfers to Other Schemes		4.370	3.616	(0.754)	4.460
		95.730	97.595	1.865	100.540
<b>Net (additions)/withdrawals from dealings with members</b>		<b>(15.270)</b>	<b>(21.244)</b>	<b>(5.974)</b>	<b>(17.650)</b>
Administrative Costs		1.930	1.737	(0.193)	1.850
Oversight and Governance Costs		0.830	0.600	(0.230)	0.620
Investment Management Expenses:-					
Management Fees		9.440	8.649	(0.791)	8.650
Performance Related Fees		2.390	0.886	(1.504)	0.880
Custody Fees		0.180	0.115	(0.065)	0.110
Transaction Costs		2.570	4.341	1.771	4.340
<b>Net (additions)/withdrawals including fund management expenses from dealing with members</b>		<b>2.070</b>	<b>(4.916)</b>	<b>(6.986)</b>	<b>(1.200)</b>
<b>Returns on investments</b>					
Investment Income		(24.920)	(28.662)	(3.742)	(26.090)
Taxes on income		0.180	0.345	0.165	0.230
(Profit) and losses on disposal of investments and changes in the market value of investments	1	(118.900)	(194.926)	(76.026)	(127.100)
<b>Net return on investments</b>		<b>(143.640)</b>	<b>(223.243)</b>	<b>(79.603)</b>	<b>(152.960)</b>
<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(141.570)</b>	<b>(228.159)</b>	<b>(86.589)</b>	<b>(154.160)</b>
Opening net assets of the scheme at 1 April 2019		(3,303.160)	(3,303.160)		(3,531.319)
Net (increase)/decrease in the Fund		(141.570)	(228.159)	(86.589)	(154.160)
<b>Closing net assets of the scheme at 31 March 2020</b>		<b>(3,444.730)</b>	<b>(3,531.319)</b>	<b>(86.589)</b>	<b>(3,685.479)</b>

**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	(153.059)
Changes in Market Value	(41.867)
	<u>(194.926)</u>

26<sup>th</sup> September 2022

Agenda Item No. 9

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## Statement of Investment Principles

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Report by: Elaine Muir, Head of Finance

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Wards Affected: All

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### Purpose

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This report introduces the annual review of the Statement of Investment Principles (SIP) for Fife Pension Fund. The document replaces the SIP agreed by the Committee in June 2021. The report also outlines governance arrangements for the implementation of investment strategy and the assurance provided and outlines the format and frequency of reporting to the Committee.

### Recommendation(s)

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It is recommended that the Committee adopt the revised Statement of Investment Principles.

### Resource Implications

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There are no direct resource implications identified at this stage.

### Legal & Risk Implications

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There are no known legal implications. The SIP details how the risks, compliance and governance aspects of the Fund are managed. Such a statement is a requirement of the Local Government Pension Scheme regulations.

The SIP is an important part of the Fund's governance arrangements and provides the framework within which the Executive Director Finance & Corporate Services implements the investment strategy of the fund.

### Impact Assessment

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

### Consultation

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The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

# 1.0 Background

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- 1.1 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.
- 1.2 The Statement of Investment Principles (SIP) must be reviewed, and if necessary revised from time to time and in the case of material change in policy on investment matters within 6 months of the date of that change.

# 2.0 Statement of Investment Principles

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- 2.1 The Statement of Investment Principles (SIP) is traditionally reviewed by Committee on an annual basis. When formally reviewing the SIP the Committee takes advice from officers and advisers of the Joint Investment Strategy Panel (JISP). At its meeting in early June 2021, the JISP confirmed its belief that the SIP satisfies Committee’s statutory duty and is an accurate reflection of current advice, which includes the agreed long-term investment strategy that was determined after the most recent triennial actuarial valuation exercise.
- 2.2 The SIP describes the Fund’s investment strategy as allocations to various asset categories, or Policy Groups. The amended SIP includes a few minor revisions and additions to the document. These can be found at Appendix 1 and are highlighted yellow for ease of reference. Once agreed, a clean copy will be published on the Fund’s website.
- 2.3 The SIP includes an updated strategic target allocation for the Fund at Appendix A which incorporates proposed changes which are subject to a separate report on this agenda.

### Monitoring and Reporting to Committee

- 2.4 The SIP is an important part of the Fund’s governance arrangements and provides the framework within which the Committee delegates the implementation of the investment strategy, as defined by the policy groups (asset class), to officers with advice from the JISP.
- 2.5 The Committee retains responsibility for decision making in relation to investment strategy, monitoring and scrutiny of the investments and this remains a vital part of the Fund’s governance.
- 2.6 The monitoring and scrutiny of investments is outlined below, under the headings of Governance arrangements and Investment Outcomes.

### Governance Arrangements

Aspect	Current Assurance (frequency)
Are JISP meetings being held?	<ul style="list-style-type: none"><li>• JISP meetings are held quarterly</li><li>• Minutes of the meeting are issued to the convener of the Committee and the IPO (quarterly)</li><li>• Update of JISP activity to Committee (annually)</li></ul>



<b>Aspect</b>	<b>Current Assurance (frequency)</b>
Is the JISP covering relevant issues?	<ul style="list-style-type: none"> <li>• Visibility of agenda plan for JISP (annually)</li> <li>• Investment manager mandates (including objectives and controls) agreed at JISP (as required)</li> <li>• Traffic light monitoring of investment managers by LPF team with oversight by JISP (quarterly or more frequently as required)</li> <li>• IPO access to JISP (annually)</li> </ul>
Advice and scrutiny by external independent advisers	<ul style="list-style-type: none"> <li>• Minutes of the meeting (with confirmation of attendees) is issued to the convener of the Committee (quarterly)</li> <li>• Advisers attend Committee briefings/training/meetings (at least annually)</li> <li>• Regular tendering of advisers (contracts are 5 years plus one 2 year extension)</li> </ul>
Are delegated officers competent to make decisions	<ul style="list-style-type: none"> <li>• Skill and knowledge are kept up to date</li> <li>• JISP advisers are questioned and challenged</li> <li>• Questions and challenges are recorded in minutes of the meetings and issued to the convener of the Committee and the IPO (quarterly)</li> </ul>
All of the above	<p>Internal audit scrutiny - Pensions Fund internal audits:</p> <ul style="list-style-type: none"> <li>- Internal Audit plan – agreed annually</li> </ul> <p>External assessment of controls</p> <ul style="list-style-type: none"> <li>- Annual Audit – External Audit</li> </ul>

### **Investment Outcomes**

<b>Aspect</b>	<b>Current Assurance (frequency)</b>
Are investments invested in line with strategy?	Update on implementation of investment strategy with reporting on actual asset allocation to Committee (at least annually)
Funding update	<ul style="list-style-type: none"> <li>• Actuarial valuation reported to Committee (every 3 years and annual updates from Actuary)</li> <li>• Monitoring by Investment Strategy Panel and internal team (quarterly or more frequent as required)</li> </ul>
Investment managers	Traffic light monitoring of investment managers by LPF team with oversight from JISP (quarterly or more frequently as required)
Investment performance	<p>Total fund performance indicators reported to Committee (at least annually)</p> <p>Detailed performance of Fund reported to Committee (annually)</p>

All of the above	Briefings at Committee training sessions (at least annually and specific matters as time allows or as required)
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2.7 Any additional reporting will be considered where it is deemed to enhance assurance on governance and/or long-term outcomes.

### 3.0 Measures of success

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3.1 Success of the investment strategy will, among other things, be measured by the long-term achievement of the investment and funding objectives of the Fund.

### 4.0 Conclusion

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4.1 A Statement of Investment Principles document is a requirement of the Local Government Pension Scheme regulations and is an important part of the Fund's governance arrangements.

#### List of Appendices

**Appendix 1 – Statement of Investment Principles** including:

- Appendix A – Investment Strategy
- Appendix B – Mandates and Managers
- Appendix C - Statement of Compliance with UK Stewardship Code
- Appendix D – CIPFA Principles for Investment Decision Making and Disclosure

#### Background Papers

None

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# Statement of Investment Principles

## September 2022

### 1. Introduction

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- 1.1 This Statement of Investment Principles (**SIP**) was agreed by the **then** Superannuation and Pensions Committee (**Committee**) of Fife Council (**FC**) on **26 September 2022**. 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 Lothian Pension Fund 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.
- 1.5 The SIP as been devised in conjunction with the Lothian and Falkirk Pension Funds as part of the three Funds’ commitment to work collaboratively in order to achieve the efficiencies that come from scale investing.

### 2. Governance

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- 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 are **now** supported by an independent professional observer.
- 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 other advisers as required.

- 2.3 Responsibility for implementing the strategy is also 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. Some of the Fund's assets are managed via an Investment Management Agreement with LPFI Ltd – the FCA authorised investment vehicle of Lothian Pension Fund.
- 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 and Governance Compliance Statement.

### 3. High Level Investment Principles

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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. (The legal view on fiduciary duty issued by the Scottish Local Government Pension 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 Fund). 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 Fund and partners. External resources should, therefore, be used where internal resources 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 resources 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 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 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 **policy groups** 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. **Committee agreed to a Statement of Responsible Investment Principles (SRIP) in June 2021.** [Statement of Responsible Investment Principles 2021 | Fife Pension Fund](#)

**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, climate change, 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**

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4.1 With liabilities extending decades into the future, it is in the Fund's interest to take its responsibilities as institutional asset owners seriously. To this end, the Fund's approach to responsible investment centres 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 Fund's 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 **policy group** by **policy group**, 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 Fund's 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 principles of the** FRC'S UK Stewardship Code and encourages its appointed asset managers to do so.

## 5. Funds' Objectives

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- 5.1 The **primary objective** 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 the Fund's investment strategy and governs the allocation across various **policy groups**.
- 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 Fund's 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.

- **Liability Driven Investment (LDI)** are gilts, which 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, albeit to a different measure of price inflation (the Consumer Price Index (CPI)). However, when gilts are expensive, they can guarantee a negative real return if held to maturity. 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 Fund expects to achieve diversification and better risk-adjusted returns by investing in assets from each policy group.

5.7 In order to maximise the opportunities for collaborative investing, the policy groups set out in 5.5 match those used by the Lothian and Falkirk Pension Funds.

## 6. Fund Strategy

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6.1 The Committee's agreed investment strategy (presented in Appendix A) is expressed in terms of allocations to various policy groups. 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 the Fund.

6.2 The Committee monitors performance of the Fund relative to benchmarks, including asset benchmarks. Asset benchmarks are not a perfect match for the objectives of the Fund, nor the strategies that it employs. Correct interpretation of the reported data requires a good understanding that where the Fund invests in lower risk Equities than the benchmark, returns are likely to lag a strongly rising market but be better than benchmark when it experiences significant weakness. Real Assets and other private market assets lack good comparators, especially over the short and medium-term timeframes, and the current benchmark often deviates quite significantly from the slow



re-valuation of private market assets. Other policy groups are less difficult to interpret but represent a smaller portion of the total fund.

- 6.3 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.
- 6.4 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

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- 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. The Fund employs external managers, but also works collaboratively with the Lothian Fund in house investment team, which manages some assets through its FCA authorised vehicle, LPFI, in recognition of the cost and alignment advantages of doing so.
- 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

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### 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 creditworthiness 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**

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### **Regulations and Investment Limits**

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

### **Review of SIP**

- 9.3 The Committee reviews 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.

**FIFE PENSION FUND: INVESTMENT STRATEGY**

Investment Objectives: generate returns and sufficient cash to pay pensions as they fall due.

<b>Policy Group</b>	<b>Current Interim Strategy (June 2021)</b>	<b>Proposed Final Strategy</b>	<b>Permitted Range</b>
Equities	55%	50%	40% - 60%
Real Assets	15%	20%	10% - 30%
Non-Gilt Debt	15%	15%	5% - 25%
LDI (Gilts)	15%	15%	5% - 25%
Cash	0%	0%	0% - 15%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Our separate Investment update paper on this agenda includes a proposal for updating the Strategic Target Allocation for the Fund. For reference the table above incorporates the proposed changes, should those be approved.

## Appendix B: Investment Strategy Implementation (26 September 2022)

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

Policy Group	Mandate	Manager	Actual Allocation 30/06/22
<b>Equities</b>			52.6%
	UK Passive	Blackrock	15.5%
	Global Growth	Baillie Gifford	7.9%
	Global High Dividend	LPFI	4.3%
	Global Low Volatility	LPFI	7.1%
	Global Fundamental Indexation	State Street	17.8%
<b>Real Assets</b>			18.0%
	Property	CBRE	8.3%
	Global Infrastructure	Partners Group/Various	9.6%
<b>Non Gilt Debt</b>			15.9%
	Corporate Bonds	Janus Henderson	2.6%
	Corporate Bonds	Western	2.5%
	Corporate Bonds	Legal and General Investment Management	2.7%
	Sovereign Bonds	Legal and General Investment Management	6.9%
	Private Debt	Various	1.1%

<b>LDI</b>			8.0%
	Government Bonds	Janus Henderson	4.9%
	Government Bonds	LPFI	3.2%
<b>Cash</b>			5.5%
	Cash	Various	5.5%

## Appendix C – Stewardship Statement

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The Stewardship Statement seeks to demonstrate how the Fund adheres to the seven principles of good stewardship as set out in the UK Stewardship Code 2012. It is noted that the Stewardship Code was updated and extended in 2020. Although the Fund is not a signatory to the revised Code, due to the resourcing and cost implications, it is supportive of its principles and will work towards extending its stewardship role towards compliance with the new Code.

***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 the

- the appointment of Federated Hermes Equity Ownership Services (EOS);
- the work of external investment managers; and
- the work of the internal investment team

We believe that this combination enables us to provide the appropriate standards of stewardship on behalf of the beneficiaries of the Fund through their monitoring of shareholdings, so that we can fulfil our fiduciary responsibilities as long-term shareholders.

EOS 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 on our behalf are guided by the EOS [Engagement Policy](#)

Through our engagement of EOS, we keep informed of potential issues of concern at both individual companies and across the market as a whole, which leads to collaborative engagements in which the Fund participates.

The various external investment managers we utilise operate their own stewardship and engagement initiatives in relation to investee companies and provide regular reports on these issues. This information is made available to those responsible for the governance of the Fund.

Where investment management is undertaken by LPFI on behalf of the Fund, environmental, social and governance (ESG) issues are integrated within the LPFI investment decision making process together with direct engagement where feasible with investee companies.

***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. EOS explains how it manages conflicts of interest on our behalf in its [Conflicts of interest policy \(hermes-investment.com\)](#)

- 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 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 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 interaction with companies is shared with the bulk of interventions being undertaken by EOS and external managers. In general,

- We expect the approach to engagement on our behalf to be value-orientated and focused on long term sustainable profitability.
- EOS monitors the activity of many of our investee companies and escalate engagement activity directly with them as required.
- 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, whose engagement service pools asset ownership with the aim of protecting and enhancing shareholder value. EOS 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 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 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 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 have a clear policy on voting and disclosure of voting activity,***

- We seek to vote on all shares held and have appointed EOS to exercise voting on our behalf in respect of active mandates held. EOS's voting policy is in accordance with their Global Voting Guidelines. The guidelines reference environmental, social and governance factors and aim to harness voting rights as an asset to help achieve positive engagement outcomes.
- The Fund retains the right to direct EOS or a manager in a particular way in respect of any corporate governance issue.

***Principle 7: 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

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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 Training Policy (Comprising a compulsory training seminar for all new trustees and a requirement to undertake no less than two days (14 hours) of training in each year for all Pensions Committee and Pension Board members) 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. . (Link to be added)
- The Fund has appointed an Independent Professional Observer to strengthen governance. The role of the Observer is to provide the Committee and Pensions Board with an impartial, additional source of experience and technical knowledge.
- 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.

- Conflicts of interest are also managed in each JISP meeting and dealt with as a standing item at the beginning of each meeting.

## **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 **policy groups** (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 the Statement of Responsible Investment, both of which can be found on the Fund's website.
- Details of the Fund's voting and engagements **are** 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, Statement of Responsible 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 **an annual** newsletter for members as well as an annual benefit statement. Regular briefings are provided to employers. The Fund's website is updated regularly.

Head of Finance

Fife Council

26 September 2022

26 September 2022

Agenda Item No. 10

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## **Risk Management - Quarterly Review**

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**Report by:** Elaine Muir, Head of Finance

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**Wards Affected:** ALL

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### **Purpose**

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The purpose of this report is to provide a quarterly update on the Risk Register for Fife Pension Fund. The risks associated with the Fund have been reviewed and updated scores provided to reflect the internal controls in place.

### **Recommendation(s)**

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The Committee are asked to:

1. Review and consider the contents of this report
2. Note that the risks are reviewed on a regular basis and reports will be brought forward on a quarterly basis

### **Resource Implications**

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There are no direct resource implications as a result of this report, however, should there be ineffective internal controls in place, some of the risks identified could have a significant financial impact on the Pension Fund, highlighting the need for ongoing monitoring and being risk aware.

### **Legal & Risk Implications**

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It is recognised that effective risk management is an essential element of good governance of the Local Government Pension Scheme.

### **Impact Assessment**

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An EqIA Assessment is not required.

### **Consultation**

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The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

## 1.0 Background

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- 1.1 As reported previously, a fund specific risk register has been developed in accordance with the Pensions Regulator's Code of Practice. The risk register covers investment, governance and administration risk. It is held as a separate risk register on Pentana, Fife Council's risk management system and is reviewed on a quarterly basis by the Pensions Governance Group, which is an officers group chaired by the Head of Finance.
- 1.2 The risk register forms a key part of the risk management strategy for Fund. It provides a structured and focussed approach to managing risks
- 1.3 An updated risk register was presented to committee in June. Since that time the register has been reviewed by the Pensions Governance Group at its meeting on 16<sup>th</sup> August 2022. This review included an assessment of risks and the effectiveness of associated internal controls, as well as considering any additional risks to be added and any additional context.
- 1.4 This report provides an update on the Risk Register since the last Committee.

## 2.0 Risk Register

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- 2.1 The following grid provides a summary of the current risk scores for the risks associated with the Pension Fund.

	3		1	
		4		
	2	7	3	

- 2.2 This demonstrates that there are currently 10 risks classed as insignificant, 9 classed as low risks and 1 risks are identified as medium. Details of the scoring matrix are attached as Appendix 1 to this report.
- 2.3 The Risk Register provided at Appendix 2 provides full details of the risk, the associated impact, the risk factors and the controls in place to mitigate against the risk. The current risk score reflects the position as at September 2022. All changes to the Risk Register have been highlighted yellow.
- 2.4 Since the last report, the current risk score has not changed for any risk.
- 2.5 An additional risk has been added to reflect the current economic climate and the risks associated with increased inflation.
- 2.6 The risk register includes the addition of the Administration Strategy as a control linked to the risk of rises in failure to collect and account for contributions from employers and employees on time. Further, one control related to Cyber Security is now fully effective as all team members have completed the Cyber Security training.
- 2.7 Monitoring of risk and risk arrangements remains a priority and as such will be subject to an internal audit and this is reflected in the audit plan, subject to a separate report on this agenda.

## 3.0 Conclusions

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- 3.1 The Risk Register sets out the original, target and current risk scores for all risks identified. This is reviewed on a regular basis and scores updated to reflect the effectiveness of internal controls.
- 3.2 Regular reporting will be provided to committee, recognising changes in scores and any new risks identified. Additional information has been added to the risk register to provide further clarification.

### List of Appendices

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1. Risk Register – Scoring Matrix
2. Pension Fund Risk Register

### Background Papers

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act, 1973:-

- LGPS Risk Management Policy, Superannuation Fund and Pensions Sub-Committee and Fife Pension Board May 2019
- Risk Management Review Superannuation Fund and Pensions Committee and Fife Pension Board September 2021

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### Risk Register - Scoring Matrix

Following identification of risks, the next stage is to analyse and profile each risk. Risks are assessed by considering the likelihood of the risk occurring and the impact if it does occur. The following matrix is used to assess the risk:

Risk	Impact				
	None (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

#### Key

Risk Status	Insignificant	Low	Medium	High
Risk Register symbol				

#### Likelihood Description

Likelihood of Occurrence	Score	Description
Almost certain (5)	5	Will undoubtedly happen, possibly frequently
Likely (4)	4	Will probably happen, but not a persistent issue
Possible (3)	3	May happen occasionally
Unlikely (2)	2	Not expected to happen, but is possible
Remote (1)	1	Very unlikely this will ever happen







The description of Impact is detailed as follows:

### Impact Description

Impact of Occurrence	Score				
		Impact on Service Objectives	Financial Impact *	Impact on Time	Impact on Reputation
Catastrophic	5	Unable to function, inability to fulfil obligations	Severe financial loss > £500M	Serious - In excess of two years to recover pre-event position	Highly damaging, severe loss of public confidence
Major	4	Significant impact on service provision	Major financial loss £50M to £500M	Major – Between 1 year – 2 years to recover pre-event position	Major adverse publicity, major loss of public confidence
Moderate	3	Service objectives partially achievable	Significant financial loss £100K to £50M	Considerable – between six months to 1 year to recover pre-event position	Some adverse publicity, legal implications
Minor	2	Minor impact on Service objectives	Moderate financial loss £10K to £100K	Some - 2 to 6 months to recover	Some public embarrassment, no damage to reputation
None	1	Minimal impact, no service disruption	Minimal loss Up to £10K	Minimal – up to 2 months to recover	No interest to the press, internal only

Risks could have financial impacts on both individual members and the Fund depending on the nature of the risk the impact will vary. Financial Impacts recorded in the above table relate specifically to the Fund.

Risk Status	
	High
	Medium
	Low
	Insignificant

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Failure to process pension payments and lump sums on time	Retiring members will be paid late which may have implications for their own finances. Reputational risk for the Fund. Financial cost to the fund if interest has to be paid to members.	Non-availability of Altair pension system, ORACLE payroll system key staff or error omission, Availability of information and payment from AVC provider etc.	Laura C Robertson	12	BC plans covering the F& CS Directorate		4	3	09 June 2022
					Robust maintenance and update of Altair				
					Hosted contractual arrangement for Altair including Disaster Recovery Plan and Business Continuity Plan				
					Sufficient staff cover arrangements				
					Staff training and development and checking of work				
					Robust maintenance and update of ORACLE.				
					Hosted contractual arrangement for ORACLE including Disaster Recovery Plan and Business Continuity Plan				
					Comprehensive documented procedures and guides				
					Information and Funds received from AVC providers received on a timeous basis				

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Failure to collect and account for contributions from employers and employees on time	Adverse audit opinion for failure to collect contributions by 19th of month Potential delays to employers' FRS17, FRS102 and IAS19 year-end accounting reports	Non-availability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. Failure of employer to provide required information.	Laura C Robertson	9	Robust maintenance and update of Altair		3	3	16 Aug 2022
					Sufficient staff cover arrangements				
					Staff training and development and checking of work				
					Ongoing communication with employers				
					Regular monitoring of cash flow				
					Robust maintenance and update of ORACLE.				
					Comprehensive documented procedures and guides				
					Maintenance and monitoring of spreadsheets ensuring contributions are paid within 19 days of pay day.				
					Administration strategy sets out requirements of both employers and Administering Authority				
					Budgetary control reports are prepared which estimate the costs and income based on trends of previous years. These provide indicative information to monitor financial management of the fund.				
<b>Financial Consequences</b>	Moderate								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Inability to meet liabilities as they fall due	Immediate cash injections would be required from employers or increased contribution rates.	Contributions from employees/employers too low Failure of investment strategy to deliver adequate	Laura C Robertson	12	Funding Strategy Statement identifies how employers' liabilities are best met going forward and contributions are updated in line with funding strategy which is based on a risk approach. Admitted have their own set contribution as determined by the risk-based funding strategy and reflective of their own liabilities.		4	4	24-Jun-2021
					Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy				

		returns Significant increases in longevity, etc.			groups and is designed to generate sufficient return to continue to pay liabilities as they fall due				
					Full Actuarial Valuation undertaken every 3 years.	✓			
					Ongoing advice from investment consultants etc	✓			
					Regular monitoring of cash flow	✓			
<b>Financial Consequences</b>	Moderate								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Inability to keep service going due to loss of main office, computer system or staff.	Temporary loss of ability to provide service.	Fire, bomb, flood, pandemics, flu epidemic, strike action etc.	Laura C Robertson	12	BC plans covering the F& CS Directorate	✓	6	4	17-Sep-2021
					Robust maintenance and update of Altair				
					Hosted contractual arrangement for Altair including Disaster Recovery Plan and Business Continuity Plan	✓			
Reliance on Fife Council corporate systems including O365 MS Teams and Sharepoint									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
Loss of funds	Financial loss to the fund	Fraud or misappropriation of funds by an employer, employee, agent or contractor	Elaine Muir	12	Regular monitoring of cash flow	6	3	09-06-2022
					Internal and external audit regularly test those appropriate controls are in place and working effectively			
					Regulatory control reports from investment managers, custodian, etc are also reviewed by audit.			
					Due diligence is carried out when a new Fund Manager is appointed.			
					Reliance is also placed on Financial Conduct Authority registration			
					Performance monitored on an ongoing quarterly basis			
					Newsletter for Pension Scheme members			
					Annual Employer Forum			
					National Fraud Initiative			
					Internal Policies and Procedures in place.			
<b>Financial Consequences</b>	Moderate							

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Employers become unable to participate in scheme due collapse of private contractors and other bodies admitted into the Fund.	Fund matures more quickly	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns, etc.	Elaine Muir	6	Ongoing communication with employers		3	3	24-Jun-2021
					Funding Strategy Statement identifies how employers' liabilities are best met going forward and contributions are updated in line with funding strategy which is based on a risk approach. Admitted have their own set contribution as determined by the risk-based funding strategy and reflective of their own liabilities.				
					Full Actuarial Valuation undertaken every 3 years.				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Employer Covenant issued by Actuary following actuarial assessment to allow admitted bodies access to the Fund.				
					Maintenance and monitoring of spreadsheets ensuring contributions are paid within 19 days of pay day.				
<b>Financial Consequences</b>	Major								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Significant rises in employer contributions due to poor/negative investment returns	Poor/negative investment returns leading to increased employer contribution rates.	Poor economic conditions, incorrect investment strategy. Poor performance of investment managers	Elaine Muir	16	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due		3	3	09 June 2022
					Ongoing advice from investment consultants etc				
					Performance monitored on an ongoing quarterly basis				
					Diversified range of investment managers over different asset classes				
					Funding Strategy Statement identifies how employers' liabilities are best met going forward and contributions are updated in line with funding strategy which is based on a risk approach.				

					Admitted bodies have their own set contribution as determined by the risk-based funding strategy and reflective of their own liabilities.				
					Strategic Investment advice from Independent Advisors	✓			
				🔴			✓	✓	
<b>Financial Consequences</b>	Major								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Failure of Global Custodian	Financial loss to the fund. Loss of information.	Financial collapse of global custodian or failure to safeguard assets or records.	Elaine Muir	5	IT contacts are managed and reviewed in line with industry best practice	✓	4	4	17-Sep-2021
					Performance monitored on an ongoing quarterly basis	✓			
					Legal agreement with Custodian	✓			
					Credit Rating monitored on an ongoing basis	✓			
					Regulated by Financial Services Authority	✓			
					Assets not on Custodian balance sheet	✓			
					Annual review meeting which takes place to discuss and ensure contractual obligations have been fulfilled.	✓			
<b>Financial Consequences</b>	Catastrophic								



Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Failure of Investment Manager to manage equities and other investments.	Financial loss to the fund	Market sector falls substantially, expertise of fund managers, continuity of skills and expertise	Elaine Muir	4	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due		3	3	08-Mar-2022
					Ongoing advice from investment advisers and consultants and actuaries etc				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Performance monitored on an ongoing quarterly basis				
					Diversified range of investment managers over different asset classes				
					Strategic Investment advice from Independent Advisors				
<b>Financial Consequences</b>	Major								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Failure to comply with LGPS and other Regulations	Wrong pension payments made or estimates given. New scheme and regulations not fully known therefore staff will be unfamiliar	Lack of technical expertise/staff resources to research regulations IT systems not updated to reflect current legislation, etc	Laura C Robertson	9	Staff training and development and checking of work		6	2	16 Aug 2022
					Ongoing advice from investment consultants etc				
					Internal and external audit regularly test those appropriate controls are in place and working effectively				
					Regulatory control reports from investment managers, custodian, etc are also reviewed by audit.				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Verification process in place within Pensions section, ongoing staff training undertaken.				

					Provision of training				
					Strategic Investment advice from Independent Advisors				
					Consultation with Peer Groups				
					In the short-term advice can be sought				
					Altair configured based on processes which are aligned to legislation ensuring compliance				
					iConnect allows verification of records from ORACLE to Altair				
					Working in collaboration with other funds on investment matters. Relationships formed with professional advisors, other funds and networks. These relationships allow the team to keep up to date with developments and changes to legislation and regulation as well as discussing and agreeing best practice.				
					Administration strategy sets out requirements of both employers and Administering Authority				
<b>Financial Consequences</b>	Moderate								








Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Failure to hold personal data securely	Data lost or compromised Reputational risk.	Insufficient security of data Inadequate data retention policy, backup and recovery procedures.	Laura C Robertson	6	Data Protection Act procedures adhered to and all staff have completed appropriate mandatory DPA training		3	3	24-Jun-2021
					Secure communications channels in place				
					System access controlled				
					Altair complies with the appropriate ISO standards require by a hosted system				












Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Failure to keep pension records up to date and accurate	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid	Poor or non-existent notification of by employers of new starts, amendments, leavers, etc.	Laura C Robertson	9	Robust maintenance and update of Altair		6	3	16 Aug 22
					Ongoing communication with employers				
					Verification process in place within Pensions section, ongoing staff training undertaken.				
					iConnect allows verification of records from Employer Payrolls to Altair				
					Member's self-service gives members the opportunity to check and update their own records				
				Administration strategy sets out requirements of both employers and Administering Authority					





Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Committee and board members have inadequate knowledge and understanding.	Detrimental decisions made in relation to the Pension Fund and management of the fund	Lack of training and continuous professional development.	Elaine Muir	8	Provision of training		6	4	08-Mar-2022
					Strategic Investment advice from Independent Advisors				
					Consultation with Peer Groups				
					Attendance at training events				
<b>Financial Consequences</b>	Major								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Over reliance on key officers	If an officer leaves or falls ill knowledge gap may be difficult to fill.	Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.	Laura C Robertson	16	Sufficient staff cover arrangements		6	3	29-Dec-2021
					Staff training and development and checking of work				
					Ongoing advice from investment consultants etc				
					Consultation with Peer Groups				
					Key officers transfer specialist knowledge to colleagues				
					In the short-term advice can be sought				
					Working in collaboration with other funds on investment matters. Relationships formed with professional advisors, other funds and networks. These relationships allow the team to keep up to date with developments and changes to legislation and regulation as well as discussing and agreeing best practice.				

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Failure to communicate properly with stakeholders	Scheme members not aware of their rights resulting in bad decisions Employers not aware of regulations, procedures, etc.	Lack of clear communication of policy and actions particularly with employers and scheme members	Laura C Robertson	8	Pensions website		2	2	16 Aug 22
					Regular updates for employers				
					Newsletter for Pension Scheme members				
					Annual Employer Forum				
					Administration strategy sets out requirements of both employers and Administering Authority				

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
The committee will not have a quorum able to meet and undertake the business scheduled to be considered at the meeting.	Meetings do not go ahead and decision making is delayed to subsequent meetings resulting in delay in implementation of any proposals or policy matters.	Non attendance could be as a result of: <ul style="list-style-type: none"> <li>• Scheduling of meetings</li> <li>• Other commitments of elected members</li> <li>• Adverse weather conditions</li> <li>• Illness</li> <li>• Lack of connectivity for virtual meetings</li> </ul>	Elaine Muir	12	Standing Orders - As required by the Act and Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014		4	4	20-Sep-2021
					Committee Workplan				
					Virtual Meetings				
					Committee dates agreed in advance				
									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
As a result of a cyber security attack, there is a risk that data is compromised and not secure and systems do not operate	Data lost or compromised Reputational risk.	Cyber security attack could compromise the system and the data held in the system resulting in security breaches, noncompliance with legislation, potential fraud and criminal offences.  Attacks could also mean the system cannot be used and as a result a service cannot be provided.	Elaine Muir	20	Maintenance of an ICT Strategy that correctly identifies and addresses the key challenges to delivering the information and technology required to support the delivery of services by Fife Council including Fife Pension Fund.		12	8	28-Feb-2022
					The strategy sets out the approach to keeping software up to date balancing the benefits of security fixes and minor upgrades against the risks of the patches impacting adversely on other elements of the Council infrastructure. The enhanced requirements for PSN compliance raise the importance of getting security fixes rolled out effectively.				
					Ensuring adequate provision is made for identified critical systems including, where necessary, secondary processing location in the case of the primary one failing and associated recovery procedures.				
					Corporate governance board has effective oversight of ICT for the Council and agrees strategic direction and policies to be applied to ensure ICT remains aligned, effective and secure including the Pension Fund.				
					IT contacts are managed and reviewed in line with industry best practice				
					The Information Governance Working Group includes senior managers from across the Council (including the Head of Finance) and is responsible for ensuring the Council's compliance in matters relating to data protection, information governance and records management. The Group will provide annual reports to the SIRO.				
					Process of gateway reviews which ensures that ICT and digital solutions are secure, sustainable, economical, and compliant to the agreed standards and regulations.				
					Administration access rights are kept to a minimum and audited on a quarterly basis to ensure only those required for a specific active purpose are in place				
					There are established processes for reporting and investigating all forms of security and Major incidents and lessons are learned from the outcomes				
					All significant proposed changes to the network, hardware and software are reviewed for potential impact on the infrastructure and to ensure there are contingency rollback options identified before they can go ahead				
Tools are in place (including SCOM, Solarwinds) to actively monitor the Council's infrastructure with the intention of fixing issues before they become faults. Also improves understanding of where faults are so that they can be resolved quickly									
Implement the Scottish Cyber Resilience Public Sector Action Plan. This sets out the key actions that the Scottish Government, public bodies and key partners will take to further enhance cyber resilience in Scotland's public									

					sector. <a href="https://www.gov.scot/publications/cyber-resilience-strategy-scotland-public-sector-action-plan-2017-18/pages/2/">https://www.gov.scot/publications/cyber-resilience-strategy-scotland-public-sector-action-plan-2017-18/pages/2/</a>				
					Certificates of compliance with Cyber Essentials scheme and ISOs from Software suppliers				
					Cloud Hosting				
					Cyber Essentials Training				
									
<b>Financial Consequences</b>	Catastrophic								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Adverse impacts to the fund's investment strategy or portfolios arising from negligence or poor service delivery under the shared services arrangement with Lothian Pension Fund.	Potential impacts identified for this risk include – Poor strategic decisions, poor investment performance of the portfolios, lack of diversity	Poor Performance of mandates Inappropriate Investment Strategy	Elaine Muir	9	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due		2	2	08-Mar-2022
					FCA Regulation of LPFI and LPF Key Persons				
					Strategic Investment advice from Independent Advisors on the JISP, and strategic advice from the fund's actuary				
					Diversified range of investment managers over different asset classes				
					Legal Agreement with LPFI limited and due diligence reviewed by Fund's legal advisers				
					Due diligence document that sets out all Investment Management arrangements with LPFI Limited and documenting the relationship with existing memorandum of understanding.				
					Conflicts of Interest Procedures/management				
					Performance monitored on an ongoing quarterly basis by Independent Advisors				
<b>Financial Consequences</b>	Major								



Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
<b>Inflationary Increases</b>	Potential impacts identified for this risk include – Increase in Benefits payable to members (CPI in Sept) Risk to value of and return on investments	Poor economic conditions, incorrect investment strategy. Increased costs	Elaine Muir	16	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due		6	4	14 Sept 2022
					Regular monitoring of cash flow				
					Budgetary control reports are prepared which estimate the costs and income based on trends of previous years. These provide indicative information to monitor financial management of the fund.				
					Strategic Investment advice from Independent Advisors on the JISP, and strategic advice from the fund's actuary				
					Diversified range of investment managers over different asset classes				
<b>Financial Consequences</b>	Moderate								

26 September 2022

Agenda Item No. 11

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## **Pensions Committee Workplan**

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Report by: Elaine Muir, Head of Finance

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Wards Affected: All

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### **Purpose**

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The purpose of this report is to provide the Committee with an overview of the proposed agendas for future meetings of the Pensions Committee and the annual cycle.

### **Recommendation(s)**

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The Committee is asked to:-

- Consider and comment on the agenda planning document.

### **Resource Implications**

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There are no resource implications arising from this report.

### **Legal & Risk Implications**

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There are no direct legal implications arising from this report.

### **Impact Assessment**

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

### **Consultation**

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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 In recognition of the large agenda for the September meeting some items have been deferred to meetings being held in December 2022. The proposed agenda items for future meetings are set out below, based on the usual Committee cycle plus any known additional report requests, items highlighted yellow represent changes since the last report.

Report Title	Committee Dates			
	26-Sep-22	1 & 13 Dec-22	28-Mar-23	23 & 30 Jun-23
Pension Administration Performance Monitoring Report	x	x	x	x
Risk Management Update	x	x	x	x
Fife Pension Fund- Investment Update	x	x	x	x
Review of Administration Strategy	x			
Statement of Investment Principles	x			x
Statement of Responsible Investment Principles (update)		x		x
Asset Policy Groups & Benchmarks		x		
Annual Review of Shared Services Agreement		x		
Fife Pension Fund Business Plan		x	x	
Fife Pension Fund Annual Report and Audited Accounts		x		
Fife Pension Fund Budgetary Control		x		
Annual Audit Report by External Audit		x		
National Fraud Initiative		x		
Communication Policy		x		
Revised Funding Statement Strategy		x		
CEM Benchmarking and Cost Transparency			x	
Update on Annual Audit Plan and Summary of Reports				x
Post Audit Review Report				x
Annual Internal Audit Report				x
Annual Governance Statement				x
Training and Development				x
Fife Pension Fund Draft Annual Report and Accounts				x
Audit Plans (Internal and External)	x		x	

- 2.2 The additional meeting in December has been scheduled to consider and approve the annual report and accounts for the fund, however, this does offer the opportunity to consider some other business and reduce the volume scheduled to be considered at the regular meeting. At this time the exact reports to be considered at each meeting is still to be agreed.

- 2.3 Similarly, the additional meeting in June 2023 has been scheduled to consider the draft annual report and accounts, again the exact reports that will be considered at across the two meetings is still to be determined.
- 2.4 In preparation for this Committee meeting training was held on 30<sup>th</sup> August for all members. Targeted training will continue to be scheduled prior to committee meetings to provide more detailed information and training before reports are considered.

## 3.0 Conclusions

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- 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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**PENSION COMMITTEE WORKPLAN**

Frequency	Agenda Items	Month
<b>Quarterly</b>	Pension Fund Administration Performance Monitoring Report Fife Pension Fund - Investment Update Risk Management Review	Quarterly
<b>Bi-annual</b>	Fife Pension Fund Budgetary Control	September December
<b>Annual</b>	Audit Plans (internal and external) CEM Benchmarking and Cost Transparency Business Plan Update on Annual Audit Plan and Summary of Audit Reports issued Post Audit Review Report Draft Annual Report and Accounts Annual Internal Audit Report Annual Governance statement Training and Development Statement of Investment Principles Statement of Responsible Investment Principles Annual Audit Report and Accounts  Annual Review of Shared Service Arrangement National Fraud Initiative	March March March (deferred 2022) June June June June June June June (deferred 2022) June (deferred 2022) September (deferred 2022) September (deferred 2022) December
<b>Every 3 years</b>	Actuarial Valuation Update Actuarial Valuation Funding Statement Strategy Investment Strategy Administration Strategy	December 2023 March 2024 March 2024 June 2024 June 2024
<b>As required</b>	Audit Reports (Internal) Policy Reviews Currency Hedging	