

## Pensions Committee

Committee Room 2, Floor 5, Fife House, North Street,  
Glenrothes, Fife KY7 5LT / Blended meeting



Friday 30 June 2023 - 2.00 pm

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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. **2022/23 ANNUAL INTERNAL AUDIT REPORT** – Report by the Service Manager - Audit and Risk Management Services. 3 – 16
4. **PENSION FUND ANNUAL GOVERNANCE STATEMENT 2022-23** – Report by the Chief Executive. 17 – 32
5. **FIFE PENSION FUND – UNAUDITED ANNUAL REPORT AND ACCOUNTS 2022-23** – Report by the Executive Director – Finance and Corporate Services. 33 – 119
6. **2023/24 INTERNAL AUDIT PLAN** – Report by the Service Manager - Audit and Risk Management Services. 120 – 125
7. **PENSION ADMINISTRATION - PERFORMANCE MONITORING REPORT** – Report by the Head of Finance. 126 – 136

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

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

Fife House  
North Street  
Glenrothes  
Fife, KY7 5LT

23 June 2023

If telephoning, please ask for:

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### **BLENDING MEETING NOTICE**

This is a formal meeting of the Committee and the required standards of behaviour and discussion are the same as in a face to face meeting. Unless otherwise agreed, Standing Orders will apply to the proceedings and the terms of the Councillors' Code of Conduct will apply in the normal way

For those members who have joined the meeting remotely, if they need to leave the meeting for any reason, they should use the Meeting Chat to advise of this. If a member loses their connection during the meeting, they should make every effort to rejoin the meeting but, if this is not possible, the Committee Officer will note their absence for the remainder of the meeting. If a member must leave the meeting due to a declaration of interest, they should remain out of the meeting until invited back in by the Committee Officer.

If a member wishes to ask a question, speak on any item or move a motion or amendment, they should indicate this by raising their hand at the appropriate time and will then be invited to speak. Those joining remotely should use the "Raise hand" function in Teams.

All decisions taken during this meeting, will be done so by means of a Roll Call vote.

Where items are for noting or where there has been no dissent or contrary view expressed during any debate, either verbally or by the member indicating they wish to speak, the Convener will assume the matter has been agreed.

There will be a short break in proceedings after approximately 90 minutes.

Members joining remotely are reminded to have cameras switched on during meetings and mute microphones when not speaking. During any breaks or adjournments please switch cameras off.

30 June 2023

Agenda Item No. 3

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## 2022/23 Annual Internal Audit Report

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

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### Purpose

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To submit to Members of the Pensions Committee the 2022/23 Internal Audit Annual Report. This report provides 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 is derived.

### Recommendation

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Pensions Committee is asked to:

1. Consider and note the contents of this report.

### Resource Implications

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None.

### Legal & Risk Implications

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Without proper corporate governance, risk management and internal controls, the risk increases that the Pension Fund will not achieve its objectives and may suffer financial loss and reputational damage.

### Impact Assessment

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An EqIA has not been completed and is not necessary as this report is not proposing 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 Terms of Reference of the Pensions Committee includes reviewing and approving the Internal Audit Plan, ensuring that the process has due regard to risk and coverage, and monitoring progress towards its delivery. In addition, the Committee is required to review audit reports submitted by the Service Manager - Audit & Risk Management Services, monitor management action taken in response to audit recommendations made and consider the Internal Audit Annual Report and opinion.
- 1.2 The Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 (updated 1 April 2017), apply to all internal audit service providers within the public sector and set out the requirements in respect of professional standards for these services. Professional Standard 2450, Overall Opinions, states that “the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement”. In the context of Fife Pension Fund, the “chief audit executive” is Fife Council’s Service Manager - Audit and Risk Management Services.
- 1.3 The PSIAS state that the annual report prepared by the chief audit executive must incorporate:
  - the annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control;
  - a summary of the information that supports that opinion;
  - a disclosure of any impairments to scope and / or independence;
  - a statement of conformance with the PSIAS; and
  - the results of the quality assurance and improvement programme (relating to any PSIAS EQAs and self-assessments) and progress against any improvement plans.
- 1.4 The Local Authority Accounts (Scotland) Regulations 2014, which became effective in October 2014 state that “a local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing”. In this context, recognised standards and practices are deemed to be those set out in the PSIAS. The Regulations require that the local authority must, from time to time, assess the efficiency and effectiveness of its internal audit service, in accordance with the standards, the findings from which must be considered as part of the review of the effectiveness of its system of internal control.
- 1.5 The Internal Audit Annual Report for the 2022/23 financial year, which is attached for consideration by the Pensions Committee, has been prepared on the basis of the requirements outlined above.

## 2.0 Framework of Governance, Risk Management and Control

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### ***Governance***

- 2.1 The governance framework comprises the systems, processes, culture and values by which the activities of Fife Pension Fund are directed and controlled and through which they are accountable to, engage with, and where appropriate, lead the community. It enables the Pension Fund to monitor the achievement of its strategic

objectives and consider whether those objectives have led to the delivery of appropriate cost-effective services.

### ***Risk Management***

- 2.2 Risk management is a fundamental element of good governance and decision making. The Pension Fund's risk management arrangements are designed to support, on a continuous basis, the identification, assessment and management of risks as well as the monitoring, reviewing and reporting of them. The nature of the Pension Fund results in a varied and complex risk profile.
- 2.3 The Pension Fund's risk management arrangements are being developed continuously.

### ***System of Control***

- 2.4 The system of control is a significant part of this framework, comprising a whole network of established controls and actions taken by management / others to effectively mitigate risk and help provide reasonable assurance that the aims and objectives of the Pension Fund can be achieved.
- 2.5 As a result of the constantly changing and complex environment in which the Pension Fund operates, it is essential that the framework of governance, risk management and control evolves to support it.

## **3.0 Role of Internal Audit**

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- 3.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It is a fundamental element of the Pension Fund's governance and assurance framework and assists it to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of its governance, risk management and control framework. This role includes the requirement to have a full understanding of the key risks to which the Pension Fund is exposed.
- 3.2 During 2022/23, Audit Services was independent of all the activities it audited. Independence is essential and helps ensure that unbiased judgements and impartial advice can be provided to management.
- 3.3 Audit Services, with strict accountability for confidentiality and the safeguarding of records and information, is authorised full, free and unrestricted access to all records, physical properties and personnel relevant to carrying out any engagement and effectively discharging its remit.
- 3.4 The primary purpose of internal audit is to provide an annual opinion on the adequacy and effectiveness of the Pension Fund's governance, risk management and control framework. The programme of work within the Internal Audit Plan enables that annual opinion to be formed.
- 3.5 The existence of Audit Services does not diminish the responsibility of management to ensure that resources are utilised appropriately, in a manner and on the activities intended and that governance, risk management and control arrangements are sufficient to address the risks.

- 3.6 The Internal Audit Charter, which was submitted to Fife Council's former Standards and Audit Committee on 14 June 2018, sets out in more detail the purpose, authority and responsibility of Audit Services. The Charter has recently been updated and will be submitted to the Pensions Committee in due course.

## 4.0 Audit Planning

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- 4.1 A key component of the effective management of internal audit is planning audit work to ensure that objectives are met, priorities are established, resources are targeted and used effectively, Best Value is achieved, and cognisance is taken of the risk(s) associated within each area.
- 4.2 To ensure planning is operationally effective, Audit Services is required to have a clear understanding of the Pension Fund's functions / activities, associated risks and range and breadth of potential areas for inclusion within the plan. The Internal Audit Plan is compiled on an annual basis and provides a summary of the areas where it is proposed that work will be carried out during the forthcoming year. The 2022/23 Internal Audit Plan was reviewed and approved by the Pensions Committee at its meeting on 26 September 2022.
- 4.3 The internal audit arrangements are assessed on an annual basis by the Pension Fund's External Auditor, which changed during 2022/23 from Audit Scotland to Azets. The activities of internal audit are considered as part of that assessment, principally to obtain an understanding of the work carried out and determine the extent to which assurance can be placed on it. This approach helps minimise duplication of effort and unnecessary disruption to services. Audit Services actively engaged with external audit colleagues during 2022/23.

## 5.0 Audit Reports

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- 5.1 Each planned internal audit results in an internal audit report being published, which includes an executive summary as well as audit findings (in the form of good practice points and areas for improvement), recommendations and management responses. The audit report provides management with an action plan, which assigns responsibility and details the timescale agreed for implementation of each audit recommendation.
- 5.2 Within all audit reports a judgement is given on the importance of each recommendation i.e. critical, substantial or moderate. These judgements are considered along with the materiality of the area being audited and an assessment of the system of controls to determine and articulate the overall level of residual risk. Beyond the formal reporting process, management is informed of any minor matters identified.
- 5.3 The findings and recommendations arising from each of the audit assignments reported upon since the last Annual Report have been discussed and agreed with appropriate officers and action plans have been put in place to address the areas for improvement identified. A summary of findings from each finalised Internal Audit Report is submitted to the Pensions Committee for consideration. In addition, a full copy of every finalised report is issued to the Committee and Board.

- 5.4 To confirm that management is discharging its responsibility in terms of implementing audit recommendations within the agreed timescales, Audit Services undertakes formal follow-up work and Post Audit Reviews (PARs). The outcomes from those exercises are formally reported to relevant officers and Committee, along with revised implementation dates where appropriate. In line with previous years, the implementation of internal audit recommendations was managed and monitored via Pentana. The format of the PAR report is designed to facilitate active scrutiny.

## **6.0 PSIAS Conformance**

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- 6.1 Audit Services operated in conformance with the PSIAS throughout 2022/23.
- 6.2 A requirement of the PSIAS is that the Chief Audit Executive develops and maintains a Quality Assurance and Improvement Programme (QA&IP) covering all aspects of Audit Services, including both periodic internal self-assessments and five-yearly EQAs. Since the PSIAS came into effect in April 2013, periodic self-assessments, and two EQAs, have been undertaken as required to assess conformance against the PSIAS and identify opportunities for improvement.
- 6.3 The most recent EQA was carried out during 2022/23 and a copy of the full report, detailing the findings, conclusions and recommendation from that assessment was submitted to Pensions Committee on 23 June 2023. A Summary of the EQA and related Action Plan can be found at Appendix C. An update on progress made towards implementing the recommendation within the Action Plan will be provided to Pensions Committee in due course.

## **7.0 Audit Plan Achievement**

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- 7.1 For the 2022/23 Internal Audit Plan, there was of the order of 55 productive days used directly for audit activities, which is in line with the budgeted productive audit days. Throughout the year, resource was also utilised for support activities, including strategic management of Audit Services, audit planning, attendance at / contribution to national groups (including the Scottish Local Authorities Chief Internal Auditors Group, SLACIAG, and its Management Committee; the Computer Audit Sub-Group; and the Scottish Local Authority Investigators Group) and staff training and development.
- 7.2 The 2022/23 Internal Audit Plan, which was delivered in full, included a portfolio of internal audit assignments, as well as an allocation of audit days for a formal follow-up review, the PAR exercise, the provision of advice and guidance and specific investigations.
- 7.3 As part of the continuous improvement process, Audit Services issue client questionnaires to auditees following the finalisation of each audit report. The process is used, where appropriate, to help improve the service. During 2022/23, feedback in relation to audit approach, auditor performance and conduct and the audit report was generally positive. Timing of the audit was, however, identified as an area requiring improvement and this will be addressed in conjunction with management during 2023/24.

## 8.0 Overall Assessment of Governance, Risk Management and Control

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- 8.1 Internal Audit activity included specific audits during 2022/23 on cyber security and risk management arrangements, as well as a formal follow-up review on resources and training. The types of areas covered continues to reflect the changing landscape of internal audit work, focussing on evaluating, and contributing towards improving the governance, risk management and control framework.
- 8.2 Whilst the 2022/23 audits identified that many of the expected controls are in place and operating satisfactorily, several areas requiring improvement were identified and, Internal Audit reports included recommendations and action plans (developed in consultation with management), which, once implemented, will improve the governance, risk management and control framework.
- 8.3 A total of 3 internal audit reports have been finalised since the last Annual Report was submitted to the Pensions Committee on 30 June 2022. A summary of those reports is attached at Appendix A. Reports have been well received by clients, with management agreeing to implement 100% of the recommendations made. A total of 16 recommendations was contained in the internal audit reports issued, including 11 new recommendations and 5 previous recommendations that were formally followed-up. Of the 16 recommendations, 8 were categorised as substantial and 8 as moderate.
- 8.4 Analysis of the overall audit opinion in each of the reports issued highlighted that, in general terms, 33% of the areas reported upon were controlled as expected (full assurance) and 67% were controlled, but potentially with some critical and / or many substantial / moderate weaknesses requiring improvement (reduced assurance). None of the areas reviewed were assessed as having limited or no assurance.
- 8.5 A summary of the outcome of the PAR exercise carried out during 2022/23, which obtained management assurances surrounding progress made towards implementing 21 previously agreed recommendations, can also be found at Appendix A.
- 8.6 The PSIAS requires the Service Manager - Audit and Risk Management Services to provide an internal audit annual opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control. On the basis of the areas used to inform this process for the year to 31 March 2023, the overall audit opinion reached is that reasonable assurance can be placed upon the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control.

## 9.0 Conclusions

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- 9.1 The governance framework comprises the systems, processes, culture and values by which the activities of the Pension Fund are directed and controlled and through which they are accountable to, engage with, and where appropriate, lead the community.



- 9.2 Risk management is a fundamental element of good governance and decision making. The Pension Fund’s risk management arrangements are designed to support, on a continuous basis, the identification, assessment and management of risks as well as the monitoring, reviewing and reporting of them.
- 9.3 The system of control is a significant part of the framework of governance, risk management and control, comprising a whole network of established controls and actions taken by management / others to effectively mitigate risk and help provide reasonable assurance that the aims and objectives of the Pension Fund can be achieved.
- 9.4 Internal audit is a fundamental element of the Pension Fund’s governance and assurance framework and assists it to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving its effectiveness. During 2022/23, Audit Services was independent of all the activities it audited and operated in conformance with the PSIAS.
- 9.5 The 2022/23 Internal Audit Plan, which was delivered in full, included a portfolio of internal audit assignments, as well as an allocation of audit days for a formal follow-up review, the PAR exercise, the provision of advice and guidance and specific investigations.
- 9.6 A total of 3 internal audit reports have been finalised since the last Annual Report was submitted to the Pensions Committee on 30 June 2022. Reports have been well received by clients, with management agreeing to implement 100% of the recommendations made.
- 9.7 On the basis of the areas used to inform this process for the year to 31 March 2023, the overall audit opinion reached is that reasonable assurance can be placed upon the adequacy and effectiveness of Fife Pension Fund’s framework of governance, risk management and control.

## List of Appendices

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- A. Summary of Internal Audit Reports and 2022/23 PAR Exercise
- B. Service Manager - Audit and Risk Management Service’s - Annual Opinion
- C. PSIAS EQA - Summary of EQA 2022/23 and Action Plan

## Report Contact

Pamela Redpath  
Service Manager - Audit & Risk Management Services  
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## Summary of Internal Audit Reports and 2022/23 Progress Review Exercise

Key – Overall Level of Assurance (based on the Grade Assigned to Assessment of Controls)			
<b>F = Full Assurance</b> <b>Grade 1</b> - All, or practically all, expected controls are in place and operating effectively, and the audit uncovered no critical weaknesses.	<b>R = Reduced Assurance</b> <b>Grades 2 / 3</b> - Most expected controls are in place and operating effectively, and the audit uncovered no critical weaknesses.  - Most expected controls are in place and operating effectively, but the audit uncovered some critical and / or many substantial / moderate weaknesses.	<b>L = Limited Assurance</b> <b>Grade 4</b> - Few of the expected controls are in place or operating effectively.	<b>N = No Assurance</b> <b>Grade 5</b> - None, or practically none, of the expected controls is in place or operating effectively.

### i) Summary of Internal Audit Reports Issued

Report No.	Area Reviewed	Level of Assurance	Recommendations			
			Total No.	Importance		
				Critical	Substantial	Moderate
P01	Follow-up Review of Training and Resources	F	5	-	1 (1-PI)	4 (4-FI)
P02	Risk Management Arrangements	R	7	-	5	2
P03	Cyber Security	R	4	-	2	2
<b>Totals</b>			<b>16</b>	<b>-</b>	<b>8</b>	<b>8</b>

<sup>^</sup> For follow-up reviews, the recommendation importance is from the original audit report and the level of assurance is based on the position at follow-up. The information in brackets, details the number of original recommendations formally assessed as being fully implemented (FI), partly implemented (PI), not implemented (NI) or no longer applicable (N/A).

### ii) Summary of 2022/23 Post Audit Review (PAR) Exercise

As part of the 2022/23 Internal Audit Plan, a total of 21 recommendations from 5 internal audit reports were subject to a PAR. In line with the previous exercises, an update on recommendations with implementation deadlines up to an agreed cut-off date were included. The cut-off date utilised for reporting was November 2022. Implementation of the recommendations within the new audit reports will be monitored in line with these standard working practices.

A summary of the outcome of the PAR exercise is detailed in the table below. A report providing more detail on the progress made towards implementing the internal audit recommendations previously reported to and agreed by management was presented to the Pensions Committee on 13 December 2022.

No. of Recommendations	Fully Implemented	Partly Implemented	Not Implemented
21	15 (71.4%)	1 (4.8%)	5 (23.8%)

**To the Pensions Committee and Board, Fife Council Chief Executive, Executive Director - Finance and Corporate Services and Head of Finance**

As Service Manager - Audit and Risk Management Services, I am pleased to present my annual opinion for the year ended 31 March 2023.

**Respective Responsibilities of Management and Internal Audit in Relation to Governance, Risk Management and Control**

It is the responsibility of senior management to determine, establish and maintain sound systems of governance, risk management and control, to ensure that the Pension Fund's resources are utilised in the proper manner and on the activities intended and that these arrangements are sufficient to address the risks. This includes responsibility for the prevention and detection of fraud. Management is also charged with monitoring the continuing effectiveness of these arrangements and taking action as appropriate.

It is the responsibility of the Service Manager - Audit and Risk Management Services to provide an annual assessment of the overall adequacy and effectiveness of the framework of governance, risk management and control.

**Control Environment**

This comprises the governance, risk management and control processes in the context of the Pension Fund's defined goals and objectives. The key elements include the following:

- Consistency of operations with established goals and objectives.
- Efficiency and effectiveness of operations and deployment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify and report such information.
- Safeguarding of assets.

A sound control environment reduces, but cannot eliminate, the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances. It, therefore, provides reasonable but not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud or breaches of laws or regulations. Accordingly, the Pension Fund is continually seeking to improve the adequacy and effectiveness of its control environment.

There are a number of areas of high-level control and direction across the Pension Fund's activities which contribute positively to the standards of internal control in place, including:

- an ongoing review of governance arrangements by the Pension Governance Group, an officer review group led by the Head of Finance, including an annual review of a governance checklist implemented to ensure compliance with the Pension Regulator Code of Practice No. 14;
- appropriate, regularly reviewed principles, policies and strategies;
- satisfactory controls over financial systems used in relation to Pensions;

- a comprehensive risk management policy and strategy, with the risk register reviewed and updated on an ongoing basis by the Pension Governance Group;
- regular financial and administration performance reports to Committee;
- unqualified external audit opinion in previous years' annual accounts;
- well-defined Chief Officer responsibilities; and
- a Pensions Committee and Pensions Board.

### **The Work of Internal Audit**

The Service Manager, Audit and Risk Management Services, plays a critical role in delivering the Fife Pension Fund's strategic objectives by:

- championing best practice in governance;
- objectively assessing the adequacy and effectiveness of the framework of governance and management and control in relation to Fife Pension Fund;
- commenting on responses to emerging risks and proposed developments; and
- giving an objective and evidence-based opinion on all aspects of governance, risk management and control.

Fife Council's Audit Services provides the internal audit function for Fife Pension Fund and operates in accordance with the Public Sector Internal Audit Standards. Audit Services undertakes an annual programme of audit work approved by the Pensions Committee.

All Pension Fund internal audit reports, including those identifying system weaknesses and / or non-compliance with expected controls, are issued to management with responsibility for implementing all recommendations in agreed action plans.

The Service Manager - Audit and Risk Management Services is responsible for determining whether appropriate action has been taken on internal audit recommendations or that management has understood and accepted the risk of non-implementation. This is carried out through follow up procedures and reports to the Committee detailing progress made towards implementation of agreed actions.

Internal audit reports are also issued to all members of the Pensions Committee and the Pension Board, Fife Council's Executive Director - Finance and Corporate Services, Head of Finance and External Audit. Where necessary, the Pensions Committee can seek further reports from management.

### **Summary of Internal Audit Activity**

A total of 3 internal audit reports have been finalised since the last Annual Report was submitted to the Pensions Committee on 30 June 2022 covering cyber security and risk management arrangements, as well as a formal follow-up review on resources and training.

Audit services also undertook a comprehensive PAR exercise during the year and provided advice and guidance as required.

The audit work during 2022/23 has identified that many of the expected controls are in place and operating satisfactorily, however, there is scope for improvement. Audit Services has made a range of recommendations in the areas examined and action plans have been developed in consultation with management which, once successfully

implemented, will improve the Pension Fund's governance, risk management and control framework.

### **Limitation of Scope or Independence**

There was no limitation of scope or independence placed upon the work undertaken by the Audit Services during 2022/23.

### **Basis of Opinion**

My evaluation of the framework of governance, risk management and control has been informed by a number of sources, including the following:

- Audit work undertaken by Audit Services during the year and carried out in prior years with agreed improvements being implemented.
- The assessment of risk carried out during preparation of the Internal Audit Plan.
- Reports issued by the Pension Fund's External Auditor during 2022/23, together with other relevant reports.
- My knowledge of the culture, governance, risk management and performance monitoring arrangements in place.

### **Opinion**
















It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control for the year to 31 March 2023.

*Pamela Redpath FCCA*





**DATE: 20 June 2023**

**Service Manager – Audit and Risk Management Services, Fife Council**

## PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) - SUMMARY OF EQA 2022/23

ASSESSMENT AREA	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Mission of Internal Audit and Core Principles		-	-	-
Definition of Internal Auditing		-	-	-
Code of Ethics		-	-	-
<b>ATTRIBUTE STANDARDS</b>				
Purpose, Authority and Responsibility		-	-	-
Independence and Objectivity		-	-	-
Proficiency and Due Professional Care	-		-	-
Quality Assurance and Improvement Programme		-	-	-
<b>PERFORMANCE STANDARDS</b>				
Managing the internal Audit Activity		-	-	-
Nature of Work		-	-	-
Engagement Planning		-	-	-
Performing the Engagement		-	-	-

**APPENDIX C**

ASSESSMENT AREA	Fully Conforms 	Generally Conforms 	Partially Conforms 	Does Not Conform 
Communicating Results	★	-	-	-
Monitoring Progress	★	-	-	-
Communicating the Acceptance of Risks	★	-	-	-
<b>TOTALS</b>	<b>13</b>	<b>1</b>	-	-

## PSIAS - EQA 2022/23 ACTION PLAN

No.	Recommendation	Grading	Management Response	Responsible Officer / Agreed Completion Date
1	<p><b>1200 Proficiency and Due Professional Care –</b>            Since the Service Manager commenced employment in November 21, there have been no formal assessments of continuous professional development needs carried out. However, there have been a number of training and development opportunities that staff have benefitted from since the Service Manager took up post (e.g. e-learning, power BI training, attendance at SLACIAG presentations, technical reading, BGF Newsletters etc.). The Audit Team Manager has also organised Personal Development Plan meetings to be held in March 2023 with all professionally qualified auditors, with the rest of the team to follow. In addition, it is the responsibility of each individual member of staff to maintain training records and keep their employee development up to date in line with their requirements of their professional bodies as required.</p> <p>The Service Manager should implement their plans for CPD within the Internal Audit Service. This should look to ensure that there are annual assessments of the team's CPD needs against predetermined skills and competencies.</p>	Routine	<p>In line with formal plans already initiated, annual formal assessments of the team's skills and competencies will be carried out utilising the Council's Personal Development Plan methodology, supplemented with the use of a recognised skills and competencies framework for the internal audit profession.</p> <p>Development needs and opportunities will continue to be discussed during 1-2-1s / team meetings throughout the year.</p>	<p>Service Manager –            Audit &amp; Risk /            Audit Team Manager</p> <p>31 October 2023</p>

Critical	Critical
Significant	Significant
Routine	Routine



30 June 2023  
Agenda Item No. 4

## **Pension Fund Annual Governance Statement 2022-23**

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Report by: Steve Grimmond, Chief Executive

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Wards Affected: N/A

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### **Purpose**

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As part of the annual accounts process, the Council prepares a Pension Fund Annual Governance Statement for inclusion in the Pension Fund Annual Report and the annual accounts.

This report is intended to provide some background for members on the processes adopted for preparing the Pension Fund Annual Governance Statement, a copy of which is appended for members' approval.

### **Recommendation(s)**

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Members are asked to note the contents of this report and approve the draft Pension Fund Governance Statement attached.

### **Resource Implications**

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None.

### **Legal & Risk Implications**

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A Pension Fund Annual Governance Statement is required for inclusion in the Pension Fund Annual Report and annual accounts submitted for audit.

Failure to produce the statement would result in the Council not meeting the requirements of the Local Government Pension Scheme (Scotland) Regulations 2018.

### **Impact Assessment**

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An EqIA 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 Council adopted its Code of Corporate Governance in September 2003 when it was agreed the Code would be kept under ongoing review and the Council would report annually on the extent of compliance with the Code for that year. A revised Code of Corporate Governance based on the CIPFA / SOLACE guidance – Delivering Good Governance in Local Government - was submitted to this Committee on 13th April, 2010 (Para 168 SA 87 refers). The CIPFA/SOLACE guidance was subsequently revised in December, 2012 to include an updated example annual governance statement with an increased emphasis on a strategic approach. This report and the attached Pensions Fund Governance Statement reflect the revised guidance.
- 1.2 The LGPS Regulations require the preparation of a governance compliance statement. The accounting regulations require an annual governance statement. It is recommended that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations. This report and the attached Pensions Fund Annual Governance Statement reflect the revised guidance.

## 2.0 Assurance Process

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- 2.1 The Chief Executive oversees the preparation of a Pension Fund Annual Governance Statement.
- 2.2 This statement is based on assurances provided by the relevant team within Finance & Corporate Service and cognisance is also taken of both internal and external audit reports submitted to this committee and the subsequent action plans and their outcomes along with any other external assessments of the Pension Fund.
- 2.3 In addition, the Chief Executive relies on an annual Assurance Statement provided by the Service Manager - Audit and Risk Management Services, for assurance that the governance arrangements and internal control environment is operating satisfactorily. The assurance Statement is provided in a separate report to this Committee.

## 3.0 Conclusion

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- 3.1 The Council's Code of Corporate Governance and the related systems of internal control are a significant part of the framework designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore provide only reasonable and not absolute assurance that objectives will be met, assets are safeguarded, transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.
- 3.2 It should be noted that the Pension Fund Annual Governance Statement has been prepared prior to the completion of the annual accounts and annual audit and any items identified in either of these processes may require to be reflected in the final statement prior to publication with the audited annual accounts.

## **List of Appendices**

1. Pension Fund Annual Governance Statement 2022-23
2. Appendix A – Governance Compliance Statement

## **Report Contact**

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## **FIFE PENSION FUND ANNUAL GOVERNANCE STATEMENT**

### **Roles and Responsibilities**

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

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

Fife Council carries out its role as Administering Authority via

- The Pensions Committee
- The Fife Pension Board
- The Joint Investment Strategy Panel
- Finance & Corporate Services Directorate and the Pensions Governance Group (PGG)

### **Scope of Responsibility**

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

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

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

The PGG is an officer’s group, chaired by the Head of Finance, which meets quarterly, and its purpose is to provide assurance to the Committee and the Board through the monitoring of the requirements measured by the Pensions Regulator’s Code of Practice No.14 and reviewing and managing risk.

### **Governance Framework**

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

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

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

The key elements of the governance framework within the administering authority include:

- Adherence to the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation of key documents including a Statement of Investment Principles (SIP) and a Funding Strategy Statement, which can be viewed at [Statement of Investment Principles 2022 | Fife Pension Fund](#) and [Funding Strategy Statement | Fife Pension Fund](#) In

addition to setting out the Fund's objectives, these documents also detail the controls in place to mitigate the risks facing the Fund.

- Fife Council has taken steps to fully integrate compliance with Pension Regulator's standards of governance and administration for the Local Government Pension Scheme
- A structured programme to ensure the Pension Board and the Pensions Committee have the opportunity to acquire the knowledge and understanding of LGPS matters
- Systematic reporting of Key Performance Indicators to allow monitoring of performance by the Pensions Committee, Pensions Board and Senior Officers
- Operate within clearly established investment guidelines defined by LGPS Investment Regulations and the Funds SIP (links above)
- Compliance with the CIPFA Principles for Investment Decision making and Disclosure in LGPS
- Operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority's rules, regulations, and guidance
- Holding investments under custody by a global custodian with the fund benefitting from the custodian's extensive internal control framework
- Benchmarking of standards and costs against other pension funds using established industry processes
- Risk Management Manual which includes Policy and Strategy as well as regular monitoring of risks.

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

## **Pensions Committee**

### **Delegation**

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

### **Terms of Reference**

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

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

The Service Manager - Audit and Risk Management Services reports matters relating to the Pension Fund to Committee, including providing independent assurance on the framework of governance, risk management and control. A full risk register is maintained by the PGG and allows detailed risk monitoring and review, with quarterly updates now being provided to committee.

The Committee's Terms of Reference are detailed in Fife Council's List of Committee Powers which can be viewed at: [List of Committee Powers 090622 \(fife.gov.uk\)](https://www.fife.gov.uk/committees/committees/Pages/List-of-Committee-Powers-090622.aspx)

### **Frequency of Committee Meetings**

Meetings of the Committee are quarterly. Occasional ad-hoc meetings are also held as required. Committee meeting dates are listed on the Council committee diary which is available at [2022 - 2023 PEC Meetings Timetable May 2022 - Jun 2023.pdf \(fife.gov.uk\)](https://www.fife.gov.uk/committees/committees/Pages/2022-2023-PEC-Meetings-Timetable-May-2022-Jun-2023.pdf)

Details of attendance at both Committee meetings and training are provided in the following table:

		Cllr. Dempsey (convener)	Cllr Pryde (vice convener)	Cllr Davidson	Cllr Dillion	Cllr Alexander (from Jan 23)	Cllr Mowatt	Cllr Neal	Cllr Patrick	Cllr Tepp	Cllr Hoggan-Radu (resigned Jan 23)
<b>Committees</b>	<b>Duration</b>										
30th June	3 hours	✓	✓	✓	✓		✓	✓	✓	✓	✓
26th September	3 hours	✓	✓	✓	✓		✓	✓	✓	✓	✓
01st December	3 hours	✓	✓		✓		✓	✓	✓	✓	
13th December	3 hours	✓	✓		✓		✓	✓	✓	✓	
28th March	3 hours	✓	✓		✓	✓	✓	✓	✓	✓	
<b>Training</b>											
Induction Training	2 hours	✓	✓		✓	✓	✓	✓	✓	✓	✓
PF Training 30th August	3 hours	✓	✓				✓	✓		✓	✓
LGC Seminar 20/21 October	8 hours	✓									
Baillife Gifford Seminar 9/10 November	6 hours		✓								
PF Training 01 December	2 hours	✓	✓		✓		✓	✓	✓	✓	
PF Training 07 March	3 hours	✓	✓		✓	✓	✓	✓	✓	✓	
TPR Toolkit		✓	✓				✓			✓	

## The Fife Pension Board

The Pension Board has been established to assist Fife Council:

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

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

The Board's Constitution, which sets out the terms, structure and operational procedures of the Board, and information on each of the representatives, can be found at [Fife Pension Board - Constitution Revised - 28.03.2023 | Fife Pension Fund](#)

Details of attendance at both Committee meetings and training are provided in the following table:

		Cllr. Adams	Cllr Ballantyne-Wardlaw	Ian Dawson	Gail Dunn (from Oct 22)	Robert Graham	Ross Hugh	Colin Paterson	Vicki Wyse	John Wincott (resigned - Sept22)
<b>Committees and Board Only</b>	<b>Duration</b>									
30th June	Varies	✓	✓	✓		✓	✓	✓	✓	✓
26th September	Varies	✓	✓	✓		✓	✓	✓	✓	
01st December	Varies	✓	✓	✓	✓	✓	✓	✓	✓	
13th December	Varies	✓	✓	✓	✓	✓	✓	✓	✓	
28th March	Varies	✓	✓	✓	✓	✓	✓	✓	✓	
<b>Training</b>										
Induction Training	2 hours	✓	✓	✓	✓	✓	✓		✓	✓
PF Training 30th August	3 hours	✓	✓	✓		✓	✓		✓	
LGC Seminar 20/21 October	8 hours		✓			✓				
Baillife Gifford Seminar 9/10 November	6 hours					✓				
PF Training 01 December	2 hours		✓	✓	✓	✓	✓	✓	✓	
PF Training 07 March	3 hours	✓	✓		✓	✓	✓	✓	✓	
Unison Training	6 hours							✓	✓	
TPR Toolkit			✓			✓		✓		

## **Executive Director of Finance and Corporate Services**

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

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

In addition, the responsibilities also include the following: -

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

These responsibilities are managed by the Head of Finance who is also the lead officer for the Pensions Committee.

## **Pension Governance Group (PGG)**

The officers' PGG is chaired by the Head of Finance and is responsible for, amongst other things, ensuring that roles and responsibilities are allocated and documented in line with the Fund's governance the Pension Regulator Code of Practice No.14 checklist, as well as reviewing the risks associated with the fund to ensure they all are controlled appropriately. As such, the group review and maintain a risk register on a quarterly basis prior to reporting to Committee. The group have a workplan in place and consider a range of pension matters including governance, risk management, administration and business planning.

## **External Advisers**

Hymans Robertson are the actuary to the Fund and provides advice on funding and actuarial valuations.

From time-to-time Hymans Robertson are also commissioned to provide advice on investment matters, such as review of the investment strategy.

Although these functions are carried out by the same company, they are dealt with in different divisions in the company with clear segregation of functions. The services concerned are tendered for separately.

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

Investment advice and services are provided by LPFI Limited and, two independent Investment Advisers as members of the JISP. The independent advisers provide direct advice to the Head of Finance and also provide training for Committee and Board members from time to time. The JISP meets on a quarterly basis and there is regular dialogue with officers of LPFI Limited out with these meetings. The Investment Strategy for the Fund is approved by the Pensions Committee. Implementation of the strategy is delegated to the Head of Finance, who takes advice from the JISP and the independent advisers before assessing the risk and return and managing the implementation process. .

Throughout 2022-23, the relationship with LPFI Limited continued to expand to increase the use of LPFI's internal investment management capabilities with LPFI Limited now acting as a Fund Manager for some of the investment portfolios. This is in line with the collaboration arrangements.

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

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

The Fund continues to implement responsible ownership, and this is recognised in the SIP and the Statement of Responsible Investment Principles (SRIP). In respect of responsible investment, the Committee continued their relationship with Federated Hermes Equity Ownership Services. Federated Hermes EOS helps institutional owners around the world to meet their fiduciary responsibilities and become active owners of public companies. Federated Hermes EOS undertakes engagement with businesses on areas of concern and are actively involved in lobbying for improved governance in companies around the world.

An Independent Professional Observer (IPO) provides support and guidance to both the members of the Committee and the members of the Pension Board to assist them in discharging their duties in relation to the Pension Fund. The IPO has attended all Committee meetings and participated in internal training events since that date, as well as attending most of the Pension Board meetings.

## Review of effectiveness

### Internal Control

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

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

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

The Administering Authority has a risk management manual which is specific to the Fife Pension Fund. The pension fund risk register is managed in accordance with the manual. The fund specific risk register is reviewed by the PGG every quarter and is subject to regular update. The current risk register is also considered by the Committee and Board on a quarterly basis.

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

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

### External Control

Investments are held and managed by several fund managers, as such, the Fund seeks assurance that the relevant internal controls are in place in these organisations. This is carried out by reviewing these organisation's internal control reports and the associated audit reports. The results of this review are detailed in the table below:

Manager	Type of Report	Assurance Obtained	Reporting Accountant
Alinda (Apex Group Ltd)	SSAE18 & ISAE 3402	Reasonable Assurance	Deloitte & Touche LLP
Baillie Gifford	ISAE 3402	Reasonable Assurance	PWC LLP
Blackrock	ISAE 3402	Reasonable Assurance	Deloitte & Touche LLP
CBRE	AAF01/20 & ISAE 3402	Reasonable Assurance	KPMG LLP



Dalmore	ISAE 3402	Reasonable Assurance	PWC LLP
GIP Aquarius Fund (J.P.Morgan) (IT controls)	ISAE 3402	Reasonable Assurance	PWC LLP
GIP Aquarius Fund (J.P.Morgan) (Private Equity and Real Estate Services and Portfolio Admin System)	ISAE 3402	Reasonable Assurance	PWC LLP
Janus Henderson	ISAE 3402	Reasonable Assurance	PWC LLP
Legal & General Investment Management	AAF01/20 & ISAE 3402	Reasonable Assurance	KPMG LLP
Partners Group	ISAE 3402	Reasonable Assurance	PWC LLP
State Street	SOC1 Report	Reasonable Assurance	Ernst & Young LLP
Western	ISAE 3402	Reasonable Assurance	PWC LLP
Iona Environmental Infrastructure (Langham Hall)	ISAE 3402	Reasonable Assurance	Haysmacintyre LLP
UK Gas Distribution	SOC1 Report	Reasonable Assurance	Ernst & Young LLP
Alcentra Clareant European Direct Lending Fund	ISAE 3402	Reasonable Assurance	KPMG
<b>Custodian</b>			
Northern Trust	SOC1 Report	Reasonable Assurance	KPMG

Key:

Report Title	Definition
SSA E18	Statement on Standards Attestation Engagements no. 18
ISAE 3402	International Standard on Assurance Engagements 3402, Assurance Reports on Controls at a Service Organisation
AAF01/20	ICAEW Assurance on internal controls of service organisations guidance
SOC1	Systems and Organisation controls

### Update on Significant Governance issues Previously Reported

There were no significant governance issues in 2022-23 specific to the Fife Council Pension Fund. Nor were there any significant governance issues within the Councils governance statement of relevance to the Fife Council Pension Fund.

### Internal Audit Opinion

During 2022-23 the following assurance reviews were undertaken

- Risk Management
- Cyber Security
- Follow Up Review (Training and Resources)
- Post Audit Reviews

Based on the audit work undertaken, it is the opinion of Internal Audit that reasonable assurance can be placed on the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control for the year to 31 March 2023.

Fife Council pension administration team are regularly subjected to both internal and external audit. The external auditor firm appointed, to carry out the audit of the Fife Pension Fund, is Azets . An audit opinion is provided separately in the Fund's audited Annual Report and Accounts.

## Significant Governance Issues

Throughout the financial year attendance at training events and non-compliance with the training policy has been highlighted as a governance issue. Action has been taken to help support elected members to meet the requirements of the training policy.

The Fund's Breaches of the Law policy statement can be viewed at [Reporting Breaches of the Law to the Pensions Regulator | Fife Pension Fund](#)

## Governance Compliance

The Local Government Pension Scheme (Scotland) Regulations 2018 require each Administering Authority to publish a Governance Compliance Statement, detailing how their governance arrangements comply with best practice guidance issued by Scottish Ministers. Details of how the Fund complies are included in the Governance Compliance Statement. Fife Council Pension Fund is compliant with all principles with the exception of training where partial compliance is recorded. Partial compliance is recorded because not all members of the Committee have complied with the policy and completed the minimum time requirement outlined in the policy.

## Access to Information

- The Committee agenda papers and minutes can be viewed at [Pensions Committee | Fife Council](#) and
- The Fund's Annual Reports, Governance Statement and all principal documents relating to governance and risk management are available on: [www.fifepensionfund.org](http://www.fifepensionfund.org)

## Governance Arrangements – Areas of Improvement and Development

Several areas of improvement were identified for 2022-23 and beyond. The following sections provides details of those completed and an action plan for future developments to be taken forward.

### Completed Improvements

- A training policy was agreed by the Committee which formalises the training arrangements for Committee and Pension Board members. The policy sets out the training required to ensure members have the appropriate skills to adequately carry out their roles. Induction training is provided to all new Committee and Board members.
- During 2022 an assessment of training needs was carried out with new members of the Committee and the Board asked to assess their current knowledge and understanding of all relevant topics. The results of the assessment are being used as a basis for arranging future training and development sessions.
- The Pensions Committee and Pension Board were offered training covering investments, governance and an introduction to the LGPS. Throughout 2022-23 training sessions have been provided covering:
  - Induction Training
  - Roles and Responsibilities – Pensions Committee and Board, Audit and Risk (including Fraud), Fiduciary Duty, Statement of Investment Principles
  - Funding Strategy Statement, Annual Accounts and Annual Report, Investment Reporting
  - Cyber Risk Management Audit, Responsible Investment and Strategic Benchmarks
  - LGC Investment Seminar
  - Baillie Gifford LGPS Seminar

- In June 2022, officers from the PGG provided induction training to new members of the Pensions Committee and Pension Board. The training covered governance arrangements, investments, LGPS regulations and administration of the scheme. Induction training was also carried out for new members in November 2022 and January 2023. Members were also invited to training session on Audit and Risk on 09 June 2022.
- The Fife Council List of Committee Powers has been updated to include the full Terms of Reference for the Pension Board. This will highlight the differences in roles and responsibilities between the Committee and the Board
- A Business Plan was completed and presented to Committee for 2023-24. Progress in relation to the Business Plan will be reported to the Pension Fund Committee over the coming year
- Updated Administration Strategy and Communication Policy were presented to Committee

### Future Developments and Improvements

Continual review of governance arrangements over the year, as well as the annual review of the Governance Compliance Statement ensures that improvement areas are identified and taken forward by the Fund. The action plan below highlights the key improvement activity that will take place over the coming year.

Development	Responsible Officer	Timescales
A series of training events complimenting committee business will continue for Committee and Board members. This will be done in line with the training policy and will recognise the number of new committee and board members following the local elections in May 2022. The training plan will also be cognisant of the Training Needs Analysis completed by all members of the Committee and Board during 2022.	Finance Operations Manager	Ongoing
Recognising that there is only partial compliance in relation to attendance at relevant training events, the training policy will be kept under review, particularly in relation to regulatory requirements in this area and the need for mandatory participation in training. This will include reviewing the policy and examining any barriers to compliance.	Finance Operations Manager	March 2024
The PGG will consider prominence for the Committee of compliance with Code of Practice 14.	Head of Finance	December 2023
Review of all governance documentation including Risk Management policy, Internal Dispute resolution, Beaches of the Law, and Conflict of Interest documentation	Finance Operations Manager	March 2024
Administration Service Review in conjunction with Hymans Robertson. The review was undertaken to ensure the team continues to meet its service requirements to members and employers, with the key findings focussing on roles, team structures, processes and increasing demand.	Pensions Team Leader	September 2023
Controls around Cyber Security will be enhanced and regularly reviewed to ensure effective, including assurances from suppliers, staff training and staff awareness.	Finance Operations Manager	December 2023

## **Certification**

It is our opinion, considering the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance. We consider the governance and internal control environment operating during the financial year from 1 April 2022 to 31 March 2023 to provide reasonable and objective assurance. Any significant risks impacting on the council as administering authority and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified, and actions have and will be taken to avoid or mitigate the impact of any such risks.

Where areas for improvement have been identified and action plans agreed, these will be treated as priority and progress towards implementation will be reviewed through the governance structures and processes established for the council as administering authority and summarised herein. Governance arrangements will continue to be reviewed and enhanced, as necessary.

## Governance Compliance Statement

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

	<b>Compliance Standard</b>	<b>Arrangements in Place/Action Taken</b>	<b>Action Complies with Principle?</b>	<b>Reason for non-compliance</b>
			<b>Yes / No / Partial</b>	<b>(if applicable)</b>
<b>Representation</b>				
2.1	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.	The Committee and Pension Board meet jointly for every Committee meeting.		
	These include:-			
	i) employing authorities (including non-scheme employers, e.g. admitted bodies);	Fife Council is represented. The Board has 4 employer representatives.	Yes	
	ii) scheme members (including deferred and pensioner scheme members);	The Board has 4 employee representatives appointed by the Trade Unions.	Yes	
	iii) where appropriate independent professional observers;	The fund employs an Independent Professional Observer who attends each Committee meeting and Pensions Board meeting.	Yes	
	and			
	iv) expert advisors (on an ad-hoc basis)	Expert Advisers attend routinely as required	Yes	
2.2	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All Committee members and Board representatives receive the same access to all papers and training and are given the opportunity to contribute, challenge and debate fully in the decision making process.	Yes	
<b>Selection and Role of Lay Members</b>				
3.1	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	All new members of the Committee are required to attend induction training, which also provides them with guidance from the Council's Democratic Services Division about their role and responsibilities. In addition they are all asked to complete The Pension Regulators e-learning toolkit.	Yes	
3.2	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	This is a standing item on every Committee agenda.	Yes	

	<b>Compliance Standard</b>	<b>Arrangements in Place/Action Taken</b>	<b>Action Complies with Principle?</b>	<b>Reason for non-compliance</b>
			<b>Yes / No / Partial</b>	<b>(if applicable)</b>
<b>Voting</b>				
4.1	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	The 9 councillors have equal voting rights.	Yes	
<b>Training/Facility Time/Expenses</b>				
5.1	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility, time and reimbursement of expenses in respect of members involved in the decision-making process.	A training policy is in place which requires all new members of the Committee to undertake induction training provided by officers. Internal training events are designed to cover a range of pension administration and investment matters. Seminars and training events are offered by the Fund's external professional advisers, Fund Managers and other providers.	Yes	
		Training costs and expenses incurred are met by the Pension Fund.		
5.2	That where such a policy exists, it applies equally to all members	The Training Policy applies to all members of Committee and the Board.	Yes	
5.3	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	In line with the approved training policy, training is offered on a planned basis in line with Committee requirements, the policy requires a minimum of 14 hours per annum. Training need is identified from a variety of sources including a Training Needs Analysis questionnaire. Members are required to record details and advise of training attended. Monitoring of activities is undertaken by the Committee.	Partial	Partial compliance is recorded because not all members of the Committee have complied with the policy and completed the minimum time requirement.
<b>Meetings (frequency/quorum)</b>				
6.1	That an administering authority's main committee or committees meet at least quarterly.	Meetings are held quarterly and additional meetings are held when necessary.	Yes	
6.2	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable – there is no secondary committee or panel.		

	<b>Compliance Standard</b>	<b>Arrangements in Place/Action Taken</b>	<b>Action Complies with Principle?</b>	<b>Reason for non-compliance</b>
			<b>Yes / No / Partial</b>	<b>(if applicable)</b>
6.3	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employer Forum held annually. The Pension Board formally provides for stakeholder involvement and representation.	Yes.	
<b>Access</b>				
7.1	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members, Board representatives and observers are treated equally in terms of access to papers, documents and advice.	Yes	
<b>Scope</b>				
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the committee includes all pension related matters within the terms of Local Government Pension Scheme legislation and the Pensions Regulator requirements.	Yes	
<b>Publicity</b>				
9.1	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	The Annual Governance Statement and Governance Compliance statement are available are included in the Pension Fund Annual Report and Annual Accounts.  <a href="#">Council governance documents are available on the Council website</a>	Yes	



30 June 2023

Agenda Item No. 5

## **Fife Pension Fund – Unaudited Annual Report & Accounts 2022-23**

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

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Wards Affected: All

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### **Purpose**

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This report contains the unaudited Annual Report & Accounts for Fife Pension Fund for the financial year 2022-23

### **Recommendation**

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It is recommended that Members consider the unaudited Annual Report and Accounts.

### **Resource Implications**

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None.

### **Legal & Risk Implications**

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None.

### **Policy & Impact Assessment**

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None.

### **Consultation**

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None.

## 1.0 Background

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- 1.1. The Local Authority Accounts (Scotland) Regulations 2014 require the unaudited Annual Report and Accounts for the Fife Pension Fund to be submitted to the appointed auditor no later than 30 June. The regulations also require elected members to consider these at a meeting held no later than 31 August.
- 1.2 Best practice is recognised in Local Government Circular 7/2014 which outlines it is for the Committee whose remit includes audit or governance functions, to have formally considered the unaudited Annual Report and Accounts prior to submitting them to the appointed auditor, and making them available for public inspection. This best practice approach has been adopted by Fife Pension Fund for many years and ensures that the committee are familiar with the content of the unaudited Annual Report and Accounts in advance of the public inspection period. This forms part of the overall governance of the Fund.
- 1.3 Formal consideration of the unaudited Annual Report and Accounts by the Committee is required to address, and to help mitigate, any risk of the Committee not agreeing to approve audited Annual Report and Accounts for signature.
- 1.4 The unaudited Annual Report and Accounts have, once again, been completed within the statutory timeframes and will be submitted to External Audit following this meeting.
- 1.5 The unaudited Annual report and Accounts contains full details of the Governance Compliance statement which is subject of a separate report on this agenda.
- 1.6 The Annual Report and Accounts will be made available for public inspection from Monday 03 July to Friday 21 July (inclusive). Details of the public inspection process were publicised on Monday 19<sup>th</sup> June.
- 1.7 Consideration of the unaudited Annual Report and Accounts at this meeting complies with the regulations.
- 1.8 The audit process will commence on 03 July 2023. During that process any necessary audit adjustments will be made to the accounts as appropriate. Final accounts and an annual audit report are due to be presented to this Committee in September 2023.

## 2.0 Issues

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- 2.1 Whilst presenting the annual report and accounts is a statutory requirement, it is recognised that the report is technical in nature and interpretation of the financial statements can be complex. To assist with understanding of the documents and the requirements in relation to the document, a short presentation will be provided during committee that will outline the content and associated requirements.
- 2.2 Presentation of the unaudited annual report and accounts is an opportunity for the committee to review the governance and financial management arrangements of the Fund and gives the committee the opportunity to understand the financial position of the Fund at the end of the financial year 2022-23. The statements in the accounts outline:-

- Management commentary and the governance statement
- The actuarial statement
- Fund Account and Net Asset Statement at 31 March 2023
- A number of explanatory notes and information to assist with interpretation of the financial position of the Fund.
- Other governance documents including membership of the Fund, Statement of Investment Principles and Communications Policy Statement
- Investment Commentary

2.3 It is worth highlighting that the management commentary in the Annual Report and Annual Accounts provides details of the Fund's performance over the year, some financial highlights, investment arrangements and commentary on responsible investment activities.

2.4 The management commentary also provides information on the investment activity undertaken. There is also a section outlining the activities of the Pension Administration team for the year 2022-23.

2.5 Essentially the management commentary is summarising and reporting on the activities of the Fund for 2022-23 and is consistent with reports presented to this committee over the year.

2.6 The audit process will commence on 03 July 2023. The purpose of the audit is to ensure the Annual Report and Accounts provide a true and fair view of the income and expenditure of the Fund and that the statements have been prepared in accordance with appropriate accounting standards and in line with the appropriate regulations. During the process any necessary audit adjustments will be made to the accounts as appropriate. Final accounts and an annual audit report are due to be presented to this Committee in September 2023.

2.7 Good progress has been made in relation to the audit recommendations arising from last year's audit, with actions including enhancements to procedures and development of bank reconciliation processes. This will be reported on more formally following this year's audit process.

## 3.0 Conclusions

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3.1 The unaudited Annual Report and Accounts have been completed and submitted to External Audit in line with the previously agreed timescales.

### Report Contact

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# Fife Pension Fund Annual Report & Accounts 2022-23

SUBMITTED FOR AUDIT 30 JUNE 2023





## Fife Pension Fund Annual Report & Accounts 2022-23

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## **MANAGEMENT COMMENTARY**

### **Introduction**

Welcome to the Annual Report and Accounts for the 2022-23 Local Government Pension Scheme (LGPS) administered by Fife Council. The report is intended to keep members, employers, pensioners and other interested stakeholders informed about the management and performance of the Pension Fund.

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

### **Strategy and Business Model**

As explained in the Funding Strategy Statement that can be accessed at [Funding Strategy Statement | Fife Pension Fund](#), the fund has a long term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due. Fund health is monitored every three years by means of review by an independent actuary (see Triennial Review, page 28).

### **Principal Risks and Uncertainty**

There are two main sources of uncertainty that affect whether the fund holds sufficient funds to pay future pension; the cost of future pensions and the value of investments, this risk is of increased significance given the recent market fluctuations experienced as a result of rising inflation and the global impact of the geopolitical situation in Europe. The risk of failing to make adequate provision for the future is managed by having an independent actuary value the liabilities of the fund every three years and set contribution rates (see Actuarial Statement on page 28). The risk of losing money on investments is managed by having an independent investment adviser review the Fund's investment strategy periodically and by diversifying assets by dividing them between several separate investment management firms, chosen to ensure a range of investment styles as set out in the Investment Management Arrangements section of this report (see page 4). The principal risks facing the fund are described in more detail in the Statement of Investment Principles (Appendix 1).

### **Overview of Fund Business**

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

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

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

A list of employers who contribute to the Fund as either scheduled or admitted bodies, can be found in the 'Membership of the Fund' section of this report (see page 58).

## Review of the Year

### Key Facts and Figures

<b>2022-23 Key Highlights</b>	<ul style="list-style-type: none"> <li>£3,420m net assets a decrease of £111m on 2021-22</li> <li>Performance return of -3.62% for 2022-23 and 9.9% for the rolling 3 year period</li> <li>Fund continues to exceed its strategic investment return objective over the rolling 3-year period</li> <li>39,469 members an increase of 1,478</li> <li>Funding level 97% at Valuation 2020</li> </ul>
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**Table 1 Financial Highlights**

Financial Highlights	2022-23 £m	2021-22 £m	Change £m
Value of Fund	3,420,129	3,531,319	111.189
Operational (Surplus)/Deficit	111.189	(228.159)	339.348
Employers Contributed	(94.726)	(92.227)	(2.499)
Employees Contributed	(23.270)	(22.671)	(0.599)
Pensions and Other Benefits Paid out	98.974	93.741	5.233
Transfer values paid in	(1.867)	(1.965)	0.098
Transfer values paid out	2.310	3.616	(1.306)

**Table 2 Investment Highlights**

Investment Highlights	2022-23	2021-22
Investment Return	-3.62%	+6.29%
Performance v Benchmark	+0.39%	-2.66%

The fund has experienced a change in value of £111.189m represented by a loss in capital value of investments of £163.522m (2021-22 gain £194.926m) coupled with income from dividends and interest of £45.286m (2021-22 £28.662m). The fund experienced a net surplus of £18.610m (2021-22 £21.243m) from dealings with members.

Fife Pension Fund complies with CIPFA guidance in terms of accounting for and disclosing investment management expenses. Details are disclosed in Notes 9 and 9a of the accounts.

The Transaction costs for 2022-23 are reported as £2.010m (2021-22 £4.341m), these reflect the cost to the fund of dealing in the underlying investments in order to achieve its objectives.

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

To demonstrate its continued commitment to ensuring value for money, the fund also took part in CEM Benchmarking exercise for 2021-22 and the results were reported to Committee in June 2023. The results demonstrated that the fund Investment Costs were slightly below other funds as a result of the paying less for private market assets, which offsets greater expense of investing in fund of funds vehicles than peers. The results also demonstrated a net 8-year return above the LGPS median.



## Investment Management Arrangements

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

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

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

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

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

The previous Superannuation Fund & Pensions Committee approved an interim Investment Strategy for the fund in June 2021 in recognition that the Real Asset Policy Group target allocation would take time to reach the intended level. Following successful progress in this area and in consultation with the JISP, the target allocations were subsequently revised in September 2022.

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

**Table 3 Investment Strategy**

Policy Group	Interim Strategy (June 2021) %	Final Strategy (Sept 2022) %	Permitted Range
Equities	55	50	45%-65%
Real Assets	15	20	10%-25%
Non-Gilt Debt	15	15	5%-25%
LDI (formerly Gilts)	15	15	5%-25%
Cash	0	0	0%-15%
<b>Total</b>	<b>100</b>	<b>100</b>	

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

Following the latest actuarial valuation in 2020, the Investment Strategy was revised and updated to reflect the results. This work was presented to committee for approval at the end of June 2021, updated in September 2022 and implementation of the strategy has continued throughout the year.

## Responsible Investment Activities

Throughout 2022-23, the Fund has taken positive steps in terms of responsible investment priorities. The Committee considered and approved an updated Statement of Responsible Investment Principles (SRIP) which sets out to clarify the Fund's agreed approach to Responsible Investment. The statement will also be used as a guide for investment decision making.

It should be noted that although not a signatory to the Principles of Responsible Investment (PRI), the Fund supports the six PRI principles.

Since approval of the SRIP the fund has joined Climate Action 100 as well as continuing to participate in the Scottish Responsible Investment Group adopting a collective approach.

The fund continues to work with Hermes EOS as voting and engagement partner and continues to disclose details of voting and engagement activity on the fund website.

### Climate Change – Monitoring and Metrics

Consideration and monitoring of the carbon efficiency is reported to the JISP and working with Lothian has enabled details of the measures of carbon efficiency to be reported here. The measure of carbon efficiency being the weighted average carbon intensity, with units of tons CO2/\$M sales). Carbon efficiency measures allows assessment at a granular level of how well companies are managing their emissions rather than what the emissions are. The intensities are weighted according to portfolio position sizes and then all the weighted intensities are added together to give a figure for the portfolio and the index. In reality, all investment managers use a variety of data on companies to assess prospects rather than a single carbon metric.

**Table 4 – Measure of Carbon Efficiency**

Fund Assets/Benchmark	2020 Weighted Average Carbon Intensity (tons CO2 \$/M sales)	2021 Weighted Average Carbon Intensity (tons CO2/\$M sales)	2022 Weighted Average Carbon Intensity (tons CO2/\$M sales)	2023 Weighted Average Carbon Intensity (tons CO2/\$M sales)	Year on Year Change
Fife Equities	187	169	187	187	0.1%
MSCI ACWI (Global Equities)	178	155	151	156	3.2%
Fife Equities & Corporate Bonds		164	176	169	-3.8%

Source: MSCI

Under the Greenhouse Gas (GHG) Protocol, Scope 1 emissions are defined as GHG emissions that are controlled or owned by an organisation, while Scope 2 emissions are indirect GHG emissions that are the result of an organisation’s energy use.

The table presents the numbers based on Scope 1 and 2 carbon emissions. Recent advances in data and methodology have facilitated the reporting of combined data for equities and corporate bond holdings.

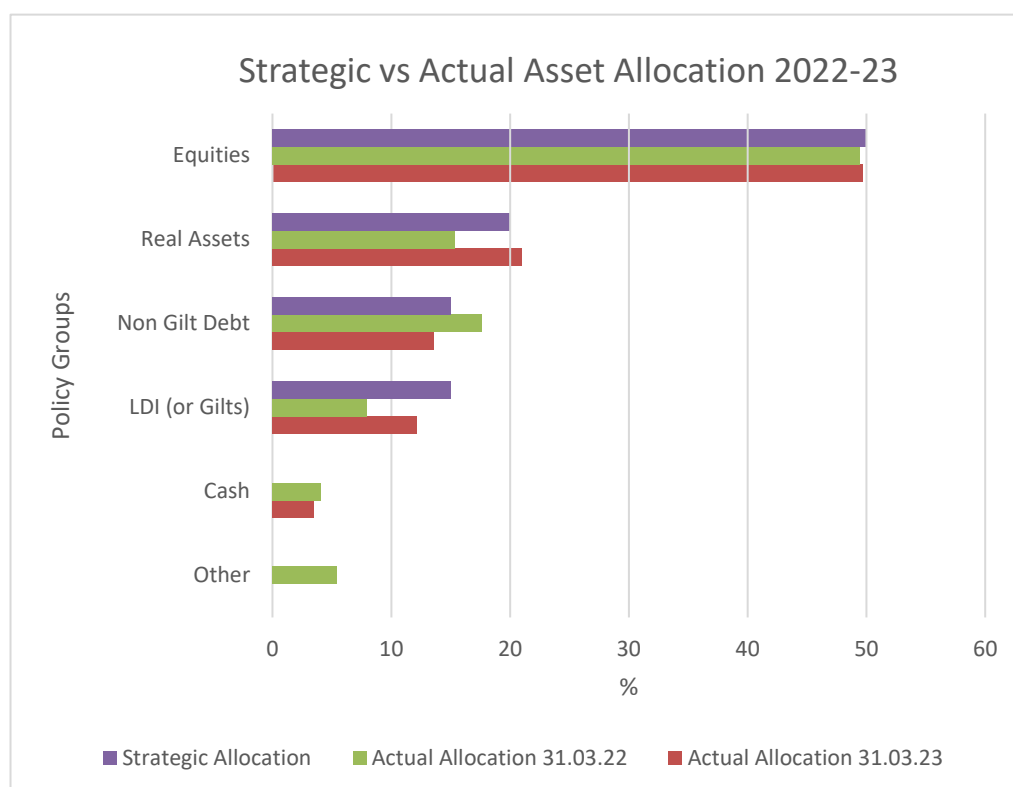
Carbon intensity numbers are treated as an output of the investment process rather than targeted inputs into the investment process. It is anticipated that global decarbonisation will reduce the average carbon intensity of investments over time.

### Implementation of Investment Strategy and Investment Performance

The value of the Fund’s net assets decreased to £3.420bn

The allocation for the year to 31 March 2023 summarised in the following graph where it is demonstrated that relative to asset allocation, the Fund was underweight in LDI and non-glit debt and overweight in Cash with Equities and Real Assets being broadly on target.

**Chart 1 – Investment Allocation per policy group**



Throughout 2022-23, the Fund undertook some changes to the investment allocation as it continued to make steady progress on the implementation of the agreed investment strategy. Over the course of the financial year the fund disinvested £443m from Equities, Diversified Growth fund and Other Policy Groups with the proceeds being invested Equities and LDI . The fund also undertook some transition activity aligned to the agreed investment strategy.

In addition, by working with LPFI, the fund was able to participate in some new Infrastructure Investment opportunities that would not have been afforded to it previously. These infrastructure investments reflect the continued implementation of the investment strategy with the Real Asset allocation now broadly in line with the strategic allocation contained in the strategy.

The cash balance at 31 March 2023 was £123m (4.1% of Fund Assets).

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

**Table 5 Asset Allocation per Policy Group**

Policy Group	Manager	Current Allocation (£m)	Current Allocation (%)	Target Allocation (%)	Difference (%)
<b>Equities</b>		<b>1,701</b>	<b>49.7%</b>	<b>50%</b>	<b>-0.3%</b>
	Blackrock	558			
	Baillie Gifford	226			
	LPFI GLOVE	238			
	State Street	531			
	LPFI Global HD	148			
<b>Other Real Assets</b>		<b>720</b>	<b>21.0%</b>	<b>20%</b>	<b>1.0%</b>
	CBRE Property	232			
	Infrastructure (Partners, various)	487			

<b>Non-Gilt Debt</b>		<b>464</b>	<b>13.6%</b>	<b>15%</b>	<b>-1.4%</b>
	Janus Henderson Corporates	82			
	Western Asset Corporates	81			
	LGIM 6A Corporate Bonds	87			
	LGIM 5YR+ US Index-linked	167			
	Private Debt	47			
<b>LDI (Formerly Gilts)</b>		<b>417</b>	<b>12.2%</b>	<b>15%</b>	<b>-2.8%</b>
	Janus Henderson Gilts	140			
	LPFI Gilts	277			
<b>Cash</b>		<b>123</b>	<b>3.5%</b>	<b>0%</b>	<b>3.5%</b>
<b>Total Fund</b>		<b>3,425</b>	<b>100%</b>	<b>100%</b>	

Source: Northern Trust

Performance of the fund for 2022-23 resulted in a net loss in asset value of £111.189m with the fund outperforming against its benchmark of -4.01% by -0.39% over a rolling 12-month period.

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

**Table 6 Fund Performance**

<b>Returns</b>	<b>1 Year (2022-23) %</b>	<b>3 years % per annum</b>	<b>5 Years % per annum</b>	<b>Inception % per annum*</b>
Fund Return	-3.6%	9.9%	6.6%	7.9%
Benchmark Return	-4.0%	7.7%	4.5%	7.2%
Excess Return	0.4%	2.2%	2.1%	0.7%

Source: Northern Trust

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

## Investment Trends and Influences

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

## Structure of Administration

### The Pensions Administration Team

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

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

The administration function covers a range of activities including: -

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

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

### **Service Delivery Developments**

During the year, two team members retired and one left to take up a new employment opportunity. This necessitated an extensive recruitment process. The team welcomed four new colleagues and three team members were promoted. The team now has a full staffing compliment under the current structure.

The team has fully adopted the blended workstyles approach and reflected these arrangements in the communication strategy.

### **Training and Development**

The team developed and carried out a comprehensive induction programme for the new team members.

A formal training plan was created for new and promoted team members which continues to be implemented and monitored. However, the Fund recognises the importance of ensuring that all team members have the knowledge and skills to discharge their roles, including the impact of legal rulings and regulatory changes. Development and training needs are identified to ensure that the relevant pension and systems knowledge is acquired, maintained, and developed. Team members are encouraged to obtain a Certificate in Pensions Administration through the Chartered Institute of Payroll Professionals.

Training is delivered in-house, at Local Government Association (LGA) Secretariat workshops, and training events organised by our software supplier, Aquila Heywood and the Fund Actuary, Hymans Robertson. All in-house training is delivered in person. Aquila Heywood and Hymans Robertsons webinars and training sessions were attended during the year using Microsoft Office Teams.

External training sessions attended by team members included: -

- Annual Allowance and Lifetime Allowance
- Transfers
- Aggregation of LGPS Membership
- 2023 Valuation

### **Statutory Framework of the LGPS**

The LGPS is a key statutory scheme established under primary legislation – the Superannuation Act 1972 and Public Service Pensions Act 2013. The scheme rules take the form of a series of regulations – the Local Government Pension Scheme (Scotland) Regulations. The regulations are Scottish Statutory Instruments (SSIs).

The scheme benefits are set out in the Local Government Pension Scheme (Scotland) Regulations 2018 which are available here <https://scotlgpsregs.org/schemeregs/lgpsregs2018/timeline.php>

### **Administration Performance**

#### **Processes and Procedures**

The Team is committed to the continuous improvement of the processes and procedures.

In 2022/23, the team developed processes and procedures in the following areas: -

- Aggregation of LGPS benefits
- Calculation, checking and payment of retirements
- Calculation and checking of deferred benefits
- Transfers out

- Paying Death Grants

## Fund Policies

The team collaborated with Hymans Robertson to produce an updated Pension Administration Strategy Statement which was presented and agreed at the 26<sup>th</sup> September 2022 Pension Committee. This followed a consultation process with scheme employers, Fife Pension Board, the Independent Professional Observer and both the convener and vice-convener of Pension Committee.

The revised statement provides greater clarity on the roles and responsibilities of both Fife Council as 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.

You can view the Pension Administration Strategy Statement at [Administration Strategy | Fife Pension Fund](#)

The committee approved an amended Training Policy ([Training Policy | Fife Pension Fund](#)) for Committee and Board members at the 30<sup>th</sup> June 2022 Committee and an updated Communication policy ([Fife Pension Fund Communication Policy | Fife Pension Fund](#)) at the 13<sup>th</sup> December 2022 Committee.

## Performance Standards

A suite of key performance indicators (KPIs) is prepared quarterly for the Committee and Pension Board.

Results of performance against KPI targets in 2022-23 are shown below: -

**Table 7 Key Performance Indicators 2022-23**

Membership Transactions	Target Days	Target	Within Target
Correspondence	10	100%	100%
Refunds	5	98%	87%
New Members	20	80%	99%
Provide Ill Health Estimates	13	97%	25%
Provide Redundancy Estimates	13	97%	100%
Retirals	5	95%	94%
Transfer in	10	92%	36%

Departure of experienced team members impacted on performance during the year for the processing of refunds, retirals and transfer in cases. New team members were recruited and some promotions meant a requirement for training to be provided for new and promoted employees. The current KPI for processing ill health estimates does not reflect the time required by scheme employers to provide actual pensionable pay figures, including the Assumed Pensionable Pay figure, for the team to calculate enhanced ill health benefits. Performance has been reported on a quarterly basis and reviewed and discussed by the Pensions Committee and Board.

A comprehensive review of the KPIs has been undertaken which involved reviewing and understanding the range of KPIs reported by other Funds, ensuring consistency of targets with the Administration Strategy, and reflecting updated target days based on experience to date.

This determined that the team should expand its KPI suite to include reporting on the processing of death benefits, transfers out and divorce cases, and several additional indicators.

## Administration Review

The Fund initiated a comprehensive review of scheme administration. An internal review by team members was followed by an independent review carried out by Hymans Robertson. The aim of the review is to ensure that the Team continues to meet its service requirements to members and employers. The Fund recognised that service delivery is set against a backdrop of LGPS complexity, increased governance and reporting requirements, and the impact of legal cases such as the McCloud ruling on pension administration functions.

The key findings and recommendations of both the internal and independent review covered areas such as the role of team members, work processes, Fund policies and whether the current team structure is fit for purpose given the increasing levels of service demands. An action plan is being developed with a view to addressing these areas over the coming year.

### **Statutory Annual Benefit Statements**

The team met the statutory deadline of 31 August 2022 and issued 100% benefit statements via Members Self-Serve (MSS). However, it has been noted that not all members access MSS, therefore, for 2023 correspondence will be issued advising members to register for MSS to allow them to access their annual benefit statements.

### **Preparation for the Triennial Valuation**

2023 is the valuation year and as such the team has worked closely with the Fund's Actuary, Hymans Robertson in preparing for the submission of data extracts.

### **Use of Information Technology**

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

One employer began using i-connect in 2022/23 following training provided by team members.

The team continued to work closely with Fife Council's payroll team to develop and improve data submission reports for i-connect including the provision of a report detailing Assumed Pensionable Pay figures for those employees on sick leave.

### **Communications**

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

Fife Pension Fund's website is developed and maintained by Hymans Robertson. The team continues to update the site to ensure scheme information and literature are readily available. News articles, ranging from Fund specific information to bulletins highlighting general pension issues, are available on the website. The team is also receiving assistance from colleagues from the Council's Business Management Innovation Unit on the development of the site.

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

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

The Fund is required to have a formal written communications statement which can be viewed at Appendix 2 and also at [Fife Pension Fund Communication Policy | Fife Pension Fund](#)

### **Working with Scheme Employers**

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

The 2023 Employers' Forum was held on 27 March 2023 on Microsoft Office Teams. The Forum was held earlier than normal so that the Fund Actuary could explain the approach to the 2023 valuation.

## **Collaborative Working**

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

## **Key Legislative Changes**

### **Amendments to the 2018 Regulations**

[The Local Government Pension Scheme \(Scotland\) \(Miscellaneous Amendments\) Regulations 2022](#) came into force on 1 June 2022. These Regulations change the rules for calculating pre-April 15 survivor pensions in response to two court cases: Walker v Innospec and Goodwin v Department for Education. The changes place surviving same-sex civil partners, survivors of married same-sex couples and male survivors of female married members in a similar position to female survivors of male married members. This requires the team to revisit calculations for deaths that occurred after 4 December 2005.

The regulations also amend The Local Government Pension Scheme (Scotland) Regulations 2018, to provide further flexibilities for fund authorities in dealing with employers and allow for amendments to an employer's contribution rate in between valuations. The Funding Strategy Statement has been updated to reflect this and was approved at Committee in September 2022 ([fife-pension-fund-funding-strategy-statement.pdf \(fifepensionfund.org\)](#)).

On 14<sup>th</sup> March 2023, the Scottish Public Pensions Agency (SPPA) published a consultation and draft regulations on changing the CARE revaluation date from 1<sup>st</sup> April to 6<sup>th</sup> April each year. The change is being introduced to take inflation out of the scope of the Annual Allowance calculation.

### **McCloud Ruling – Preparatory Work**

The Public Services Pensions and Judicial Offices Act is the legal framework which allows for the retrospective changes (the remedy), required by the McCloud ruling to be made to the LGPS regulations. At the time of writing, we are awaiting the statutory legislation to implement the remedy.

However, the McCloud project continued throughout the year in anticipation of the legislation being made in 2023. Data has been received from most of the scheme employers, and the team is working closely with the Council's Payroll and Business and Technology Solutions Teams on the data required from the Council's payrolls. The team has continued to engage with its system provider on the uploading of data to rectify member records.

### **Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc) (Amendment) Regulations 2022**

These Regulations came into force on 1<sup>st</sup> June 2022 and affect members when they apply to take payment of or transfer their in-house AVCs (Additional Voluntary Contributions). The regulations require the team to refer AVC members to Pension Wise although members can opt out of taking Pension Wise guidance. Communications and processes have been amended accordingly.

### **Pension Scams**

The Pension Scams Industry Group (PSIG) published in March 2023 a revised Practitioner guide on Combating Pension Scams. The guide has been updated to reflect the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 which give administering authorities tools to act where suspicions about the circumstances that have prompted the transfer request are identified. Specific checks must be made which will determine whether a transfer request meets the conditions set out in the Regulations. The team has reviewed its transfer processes and communications based on guidance from the LGA and the Pensions Regulator.

The Fund has signed up to The Pensions Regulator's pledge to combat pension scams.



## **Spring 2023 Budget**

The Chancellor announced changes to pensions tax allowances including

- Removal of the Lifetime Allowance (LTA) charge
- Maximum tax-free lump sum of £268,275 for most members
- Changes to how Lifetime Allowance excess lump sums are taxed
- Increase in the Annual Allowance from £40,000 to £60,000 for the 2023/24 tax year

### **Removal of the Lifetime Allowance charge (LTA)**

The LTA has historically been the maximum value of retirement benefits an individual can build up over their lifetime without paying a tax charge.

Before the 6 April 2023 members with lifetime pension savings valued at more than the LTA limit of £1,073,100 would be liable for a tax charge. From 6 April 2023 that charge has been removed meaning that there is no level of lifetime pension savings that will trigger a tax charge.

The Government has announced that from 6 April 2024 the LTA will be scrapped completely.

### **Pension Dashboards**

Pension dashboards will allow individuals to view information about their pensions, including their State Pensions, in one place online. Pension providers, including the LGPS, will be compelled by legislation to compulsorily connect to the pension dashboards ecosystem. A DWP Ministerial Statement on 2 March 2023 announced delays to the mandatory connection deadlines for providers. At the time of writing, it is unclear whether the current LGPS connection deadline of the end of September 2024 will be revised.

The Fund has taken a proactive approach in preparing for this digital revolution. CMS, the Fund's external Legal Advisers, has provided guidance on the legal issues and an agreement is in place to use the digital interface supplied by the Fund's software supplier, Aquila Heywood. A data cleansing exercise is also underway to ensure member data is accurate and up to date.

## **Other Key Regulatory and Legislative Issues**

### **Public Service Pensions Indexation**

The UK Government approved the rate of increase for all public sector pension schemes and state scheme benefits at 3.10% effective from 11 April 2022. The increase was set by reference to the annual change in the Consumer Price Index measured as at September 2020.

### **CARE Scheme Revaluation**

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

In accordance with The Public Service Pensions Revaluation (Prices) Order 2021, the in-service revaluation of 3.1% in respect of the scheme year was applied at one second after midnight on 31 March 2022.

### **National Fraud Initiative**

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

### **Tell Us Once (TUO)**

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

## Internal Dispute Resolution Cases

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

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

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

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

### Appeals Against Employer Decisions in 2022-23.

Reason for Appeal	Number	Decision
Appealing employer's refusal to grant ill health retirement	2	2 appeals pending
Appealing against level of ill health benefits	4	4 appeals pending

## Fund Update

Membership details are shown below:-

Member Status	2022-23	2021-22
Active roles	16,015	15,524
Pensioners	15,226	14,677
Deferred role	8,228	7,790
<b>Total</b>	<b>39,469</b>	<b>37,991</b>

The fund invested and administered pensions on behalf of 20 current and former employers during 2022-23. These include scheduled bodies, brought into the Fund by legislation, and admitted bodies which chose to join the fund. The detailed listing of employers is contained on page 58 of the Annual Report and Accounts for the Funds.

## Future Years

Looking ahead, The Pension Fund will continue to face challenges and to ensure it is fully equipped to deal with those challenges. The fund produced and agreed a business plan which sets out all of the business as usual activity as well as some of the less routine development activities. The Fund will be involved in a procurement exercise in relation Custody and Performance measurement arrangements and will look to work collaboratively so that resources and expertise can be pooled and explore synergies efficiencies that may be possible.

The coming year is significant for the Fund in that two significant pieces of work will be carried out. The Fund will be working on the valuation process and the results throughout the calendar year. Investigation is being carried out to assess whether the work on the valuation can be done in tandem, and along-side the Investment Strategy as there are synergies between the two. The logistics of this are being worked on as the two pieces of work are not normally carried out simultaneously.

The Administration Team will also be continuing work on the McCloud judgement and with a view to being as prepared as possible for the underpin remedy being finalised.

Although no commitment has been made to the Taskforce for Climate Related Financial Disclosure (TCFD) in Scotland to date, it is anticipated that there will be continued interest in climate change and that there will

no doubt be requirements in Scotland to report in a similar way to that already introduced in England & Wales. The fund will undertake work to research and prepare for this happening in the future.

The fund will introduce an enhanced suite of performance indicators in the coming year, and it is intended that this will be kept under review and refined in future if and when necessary.

Pensions Dashboards will bring a further significant change to the Fund. These are digital services such as apps or websites, which savers will be able to use to see their pension information one place. A saver will use the dashboard to search records of all pension schemes to confirm whether or not they are a member. Dashboards aim to help members plan for their retirement and as a public service scheme, the Fund will be required to connect with dashboards by 30 September 2024. This will involve preparation, cleansing of data and working with software suppliers will be advanced in the coming year.

The Fund is in a strong position to deal with challenges and ensure that the pension fund is managed effectively, while continuing to protect members' interests.

## **Acknowledgements**

We would like to thank both the Pension Committee and Pension Board members and officers of the Council for all of their work during 2022-23. The production of the accounts is very much a team effort and again the unaudited accounts were completed before the 30 June deadline which is a huge achievement..

## **FIFE PENSION FUND ANNUAL GOVERNANCE STATEMENT**

### **Roles and Responsibilities**

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

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

Fife Council carries out its role as Administering Authority via

- The Pensions Committee
- The Fife Pension Board
- The Joint Investment Strategy Panel
- Finance & Corporate Services Directorate and the Pensions Governance Group (PGG)

### **Scope of Responsibility**

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

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

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

The PGG is an officer’s group, chaired by the Head of Finance, which meets quarterly, and its purpose is to provide assurance to the Committee and the Board through the monitoring of the requirements measured by the Pensions Regulator’s Code of Practice No.14 and reviewing and managing risk.

### **Governance Framework**

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

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

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

The key elements of the governance framework within the administering authority include:

- Adherence to the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation of key documents including a Statement of Investment Principles (SIP) and a Funding Strategy Statement, which can be viewed at [Statement of Investment Principles 2022 | Fife Pension Fund](#) and [Funding Strategy Statement | Fife Pension Fund](#) In

addition to setting out the Fund's objectives, these documents also detail the controls in place to mitigate the risks facing the Fund.

- Fife Council has taken steps to fully integrate compliance with Pension Regulator's standards of governance and administration for the Local Government Pension Scheme
- A structured programme to ensure the Pension Board and the Pensions Committee have the opportunity to acquire the knowledge and understanding of LGPS matters
- Systematic reporting of Key Performance Indicators to allow monitoring of performance by the Pensions Committee, Pensions Board and Senior Officers
- Operate within clearly established investment guidelines defined by LGPS Investment Regulations and the Funds SIP (links above)
- Compliance with the CIPFA Principles for Investment Decision making and Disclosure in LGPS
- Operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority's rules, regulations, and guidance
- Holding investments under custody by a global custodian with the fund benefitting from the custodian's extensive internal control framework
- Benchmarking of standards and costs against other pension funds using established industry processes
- Risk Management Manual which includes Policy and Strategy as well as regular monitoring of risks.

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

## **Pensions Committee**

### **Delegation**

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

### **Terms of Reference**

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

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

The Service Manager - Audit and Risk Management Services reports matters relating to the Pension Fund to Committee, including providing independent assurance on the framework of governance, risk management and control. A full risk register is maintained by the PGG and allows detailed risk monitoring and review, with quarterly updates now being provided to committee.

The Committee's Terms of Reference are detailed in Fife Council's List of Committee Powers which can be viewed at: [List of Committee Powers 090622 \(fife.gov.uk\)](https://www.fife.gov.uk/information-and-consultation/committees-and-panels/committees/pensions-committee/list-of-committee-powers-090622)

### **Frequency of Committee Meetings**

Meetings of the Committee are quarterly. Occasional ad-hoc meetings are also held as required. Committee meeting dates are listed on the Council committee diary which is available at [2022 - 2023 PEC Meetings Timetable May 2022 - Jun 2023.pdf \(fife.gov.uk\)](https://www.fife.gov.uk/information-and-consultation/committees-and-panels/committees/pensions-committee/2022-2023-pec-meetings-timetable-may-2022-jun-2023.pdf)

Details of attendance at both Committee meetings and training are provided in the following table:

		Cllr. Dempsey (convener)	Cllr Pryde (vice convener)	Cllr Davidson	Cllr Dillion	Cllr Alexander (from Jan 23)	Cllr Mowatt	Cllr Neal	Cllr Patrick	Cllr Tepp	Cllr Hoggan-Radu (resigned Jan 23)
<b>Committees</b>	<b>Duration</b>										
30th June	3 hours	✓	✓	✓	✓		✓	✓	✓	✓	✓
26th September	3 hours	✓	✓	✓	✓		✓	✓	✓	✓	✓
01st December	3 hours	✓	✓		✓		✓	✓	✓	✓	
13th December	3 hours	✓	✓		✓		✓	✓	✓	✓	
28th March	3 hours	✓	✓		✓	✓	✓	✓	✓	✓	
<b>Training</b>											
Induction Training	2 hours	✓	✓		✓	✓	✓	✓	✓	✓	✓
PF Training 30th August	3 hours	✓	✓				✓	✓		✓	✓
LGC Seminar 20/21 October	8 hours	✓									
Baillife Gifford Seminar 9/10 November	6 hours		✓								
PF Training 01 December	2 hours	✓	✓		✓		✓	✓	✓	✓	
PF Training 07 March	3 hours	✓	✓		✓	✓	✓	✓	✓	✓	
TPR Toolkit		✓	✓				✓			✓	

## The Fife Pension Board

The Pension Board has been established to assist Fife Council:

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

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

The Board's Constitution, which sets out the terms, structure and operational procedures of the Board, and information on each of the representatives, can be found at [Fife Pension Board - Constitution Revised - 28.03.2023 | Fife Pension Fund](#)

Details of attendance at both Committee meetings and training are provided in the following table:

		Cllr. Adams	Cllr Ballantyne-Wardlaw	Ian Dawson	Gail Dunn (from Oct 22)	Robert Graham	Ross Hugh	Colin Paterson	Vicki Wyse	John Wincott (resigned - Sept 22)
<b>Committees and Board Only</b>	<b>Duration</b>									
30th June	Varies	✓	✓	✓		✓	✓	✓	✓	✓
26th September	Varies	✓	✓	✓		✓	✓	✓	✓	
01st December	Varies	✓	✓	✓	✓	✓	✓	✓	✓	
13th December	Varies	✓	✓	✓	✓	✓	✓	✓	✓	
28th March	Varies	✓	✓	✓	✓	✓	✓	✓	✓	
<b>Training</b>										
Induction Training	2 hours	✓	✓	✓	✓	✓	✓		✓	✓
PF Training 30th August	3 hours	✓	✓	✓		✓	✓		✓	
LGC Seminar 20/21 October	8 hours		✓			✓				
Baillife Gifford Seminar 9/10 November	6 hours					✓				
PF Training 01 December	2 hours		✓	✓	✓	✓	✓	✓	✓	
PF Training 07 March	3 hours	✓	✓		✓	✓	✓	✓	✓	
Unison Training	6 hours							✓	✓	
TPR Toolkit			✓			✓		✓		

## **Executive Director of Finance and Corporate Services**

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

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

In addition, the responsibilities also include the following: -

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

These responsibilities are managed by the Head of Finance who is also the lead officer for the Pensions Committee.

## **Pension Governance Group (PGG)**

The officers' PGG is chaired by the Head of Finance and is responsible for, amongst other things, ensuring that roles and responsibilities are allocated and documented in line with the Fund's governance the Pension Regulator Code of Practice No.14 checklist, as well as reviewing the risks associated with the fund to ensure they all are controlled appropriately. As such, the group review and maintain a risk register on a quarterly basis prior to reporting to Committee. The group have a workplan in place and consider a range of pension matters including governance, risk management, administration and business planning.

## **External Advisers**

Hymans Robertson are the actuary to the Fund and provides advice on funding and actuarial valuations.

From time-to-time Hymans Robertson are also commissioned to provide advice on investment matters, such as review of the investment strategy.

Although these functions are carried out by the same company, they are dealt with in different divisions in the company with clear segregation of functions. The services concerned are tendered for separately.

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

Investment advice and services are provided by LPFI Limited and, two independent Investment Advisers as members of the JISP. The independent advisers provide direct advice to the Head of Finance and also provide training for Committee and Board members from time to time. The JISP meets on a quarterly basis and there is regular dialogue with officers of LPFI Limited out with these meetings. The Investment Strategy for the Fund is approved by the Pensions Committee. Implementation of the strategy is delegated to the Head of Finance, who takes advice from the JISP and the independent advisers before assessing the risk and return and managing the implementation process. .

Throughout 2022-23, the relationship with LPFI Limited continued to expand to increase the use of LPFI's internal investment management capabilities with LPFI Limited now acting as a Fund Manager for some of the investment portfolios. This is in line with the collaboration arrangements.

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

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

The Fund continues to implement responsible ownership, and this is recognised in the SIP and the Statement of Responsible Investment Principles (SRIP). In respect of responsible investment, the Committee continued their relationship with Federated Hermes Equity Ownership Services. Federated Hermes EOS helps institutional owners around the world to meet their fiduciary responsibilities and become active owners of public companies. Federated Hermes EOS undertakes engagement with businesses on areas of concern and are actively involved in lobbying for improved governance in companies around the world.

An Independent Professional Observer (IPO) provides support and guidance to both the members of the Committee and the members of the Pension Board to assist them in discharging their duties in relation to the Pension Fund. The IPO has attended all Committee meetings and participated in internal training events since that date, as well as attending most of the Pension Board meetings.

## Review of effectiveness

### Internal Control

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

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

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

The Administering Authority has a risk management manual which is specific to the Fife Pension Fund. The pension fund risk register is managed in accordance with the manual. The fund specific risk register is reviewed by the PGG every quarter and is subject to regular update. The current risk register is also considered by the Committee and Board on a quarterly basis.

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

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

### External Control

Investments are held and managed by several fund managers, as such, the Fund seeks assurance that the relevant internal controls are in place in these organisations. This is carried out by reviewing these organisation's internal control reports and the associated audit reports. The results of this review are detailed in the table below:

Manager	Type of Report	Assurance Obtained	Reporting Accountant
Alinda (Apex Group Ltd)	SSAE18 & ISAE 3402	Reasonable Assurance	Deloitte & Touche LLP
Baillie Gifford	ISAE 3402	Reasonable Assurance	PWC LLP
Blackrock	ISAE 3402	Reasonable Assurance	Deloitte & Touche LLP
CBRE	AAF01/20 & ISAE 3402	Reasonable Assurance	KPMG LLP



Dalmore	ISAE 3402	Reasonable Assurance	PWC LLP
GIP Aquarius Fund (J.P.Morgan) (IT controls)	ISAE 3402	Reasonable Assurance	PWC LLP
GIP Aquarius Fund (J.P.Morgan) (Private Equity and Real Estate Services and Portfolio Admin System)	ISAE 3402	Reasonable Assurance	PWC LLP
Janus Henderson	ISAE 3402	Reasonable Assurance	PWC LLP
Legal & General Investment Management	AAF01/20 & ISAE 3402	Reasonable Assurance	KPMG LLP
Partners Group	ISAE 3402	Reasonable Assurance	PWC LLP
State Street	SOC1 Report	Reasonable Assurance	Ernst & Young LLP
Western	ISAE 3402	Reasonable Assurance	PWC LLP
Iona Environmental Infrastructure (Langham Hall)	ISAE 3402	Reasonable Assurance	Haysmacintyre LLP
UK Gas Distribution	SOC1 Report	Reasonable Assurance	Ernst & Young LLP
Alcentra Clareant European Direct Lending Fund	ISAE 3402	Reasonable Assurance	KPMG
<b>Custodian</b>			
Northern Trust	SOC1 Report	Reasonable Assurance	KPMG

Key:

Report Title	Definition
SSA E18	Statement on Standards Attestation Engagements no. 18
ISAE 3402	International Standard on Assurance Engagements 3402, Assurance Reports on Controls at a Service Organisation
AAF01/20	ICAEW Assurance on internal controls of service organisations guidance
SOC1	Systems and Organisation controls

### Update on Significant Governance issues Previously Reported

There were no significant governance issues in 2022-23 specific to the Fife Council Pension Fund. Nor were there any significant governance issues within the Councils governance statement of relevance to the Fife Council Pension Fund.

### Internal Audit Opinion

During 2022-23 the following assurance reviews were undertaken

- Risk Management
- Cyber Security
- Follow Up Review (Training and Resources)
- Post Audit Reviews

Based on the audit work undertaken, it is the opinion of Internal Audit that reasonable assurance can be placed on the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control for the year to 31 March 2023.

Fife Council pension administration team are regularly subjected to both internal and external audit. The external auditor firm appointed, to carry out the audit of the Fife Pension Fund, is Azets . An audit opinion is provided separately in the Fund's audited Annual Report and Accounts.

## Significant Governance Issues

Throughout the financial year attendance at training events and non-compliance with the training policy has been highlighted as a governance issue. Action has been taken to help support elected members to meet the requirements of the training policy.

The Fund's Breaches of the Law policy statement can be viewed at [Reporting Breaches of the Law to the Pensions Regulator | Fife Pension Fund](#)

## Governance Compliance

The Local Government Pension Scheme (Scotland) Regulations 2018 require each Administering Authority to publish a Governance Compliance Statement, detailing how their governance arrangements comply with best practice guidance issued by Scottish Ministers. Details of how the Fund complies are included in the Governance Compliance Statement. Fife Council Pension Fund is compliant with all principles with the exception of training where partial compliance is recorded. Partial compliance is recorded because not all members of the Committee have complied with the policy and completed the minimum time requirement outlined in the policy.

## Access to Information

- The Committee agenda papers and minutes can be viewed at [Pensions Committee | Fife Council](#) and
- The Fund's Annual Reports, Governance Statement and all principal documents relating to governance and risk management are available on: [www.fifepensionfund.org](http://www.fifepensionfund.org)

## Governance Arrangements – Areas of Improvement and Development

Several areas of improvement were identified for 2022-23 and beyond. The following sections provides details of those completed and an action plan for future developments to be taken forward.

### Completed Improvements

- A training policy was agreed by the Committee which formalises the training arrangements for Committee and Pension Board members. The policy sets out the training required to ensure members have the appropriate skills to adequately carry out their roles. Induction training is provided to all new Committee and Board members.
- During 2022 an assessment of training needs was carried out with new members of the Committee and the Board asked to assess their current knowledge and understanding of all relevant topics. The results of the assessment are being used as a basis for arranging future training and development sessions.
- The Pensions Committee and Pension Board were offered training covering investments, governance and an introduction to the LGPS. Throughout 2022-23 training sessions have been provided covering:
  - Induction Training
  - Roles and Responsibilities – Pensions Committee and Board, Audit and Risk (including Fraud), Fiduciary Duty, Statement of Investment Principles
  - Funding Strategy Statement, Annual Accounts and Annual Report, Investment Reporting
  - Cyber Risk Management Audit, Responsible Investment and Strategic Benchmarks
  - LGC Investment Seminar
  - Baillie Gifford LGPS Seminar

- In June 2022, officers from the PGG provided induction training to new members of the Pensions Committee and Pension Board. The training covered governance arrangements, investments, LGPS regulations and administration of the scheme. Induction training was also carried out for new members in November 2022 and January 2023. Members were also invited to training session on Audit and Risk on 09 June 2022.
- The Fife Council List of Committee Powers has been updated to include the full Terms of Reference for the Pension Board. This will highlight the differences in roles and responsibilities between the Committee and the Board
- A Business Plan was completed and presented to Committee for 2023-24. Progress in relation to the Business Plan will be reported to the Pension Fund Committee over the coming year
- Updated Administration Strategy and Communication Policy were presented to Committee

### Future Developments and Improvements

Continual review of governance arrangements over the year, as well as the annual review of the Governance Compliance Statement ensures that improvement areas are identified and taken forward by the Fund. The action plan below highlights the key improvement activity that will take place over the coming year.

Development	Responsible Officer	Timescales
A series of training events complimenting committee business will continue for Committee and Board members. This will be done in line with the training policy and will recognise the number of new committee and board members following the local elections in May 2022. The training plan will also be cognisant of the Training Needs Analysis completed by all members of the Committee and Board during 2022.	Finance Operations Manager	Ongoing
Recognising that there is only partial compliance in relation to attendance at relevant training events, the training policy will be kept under review, particularly in relation to regulatory requirements in this area and the need for mandatory participation in training. This will include reviewing the policy and examining any barriers to compliance.	Finance Operations Manager	March 2024
The PGG will consider prominence for the Committee of compliance with Code of Practice 14.	Head of Finance	December 2023
Review of all governance documentation including Risk Management policy, Internal Dispute resolution, Beaches of the Law, and Conflict of Interest documentation	Finance Operations Manager	March 2024
Administration Service Review in conjunction with Hymans Robertson. The review was undertaken to ensure the team continues to meet its service requirements to members and employers, with the key findings focussing on roles, team structures, processes and increasing demand.	Pensions Team Leader	September 2023
Controls around Cyber Security will be enhanced and regularly reviewed to ensure effective, including assurances from suppliers, staff training and staff awareness.	Finance Operations Manager	December 2023

## **Certification**

It is our opinion, considering the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance. We consider the governance and internal control environment operating during the financial year from 1 April 2022 to 31 March 2023 to provide reasonable and objective assurance. Any significant risks impacting on the council as administering authority and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified, and actions have and will be taken to avoid or mitigate the impact of any such risks.

Where areas for improvement have been identified and action plans agreed, these will be treated as priority and progress towards implementation will be reviewed through the governance structures and processes established for the council as administering authority and summarised herein. Governance arrangements will continue to be reviewed and enhanced, as necessary.

## Governance Compliance Statement

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

	<b>Compliance Standard</b>	<b>Arrangements in Place/Action Taken</b>	<b>Action Complies with Principle?</b>	<b>Reason for non-compliance</b>
			<b>Yes / No / Partial</b>	<b>(if applicable)</b>
<b>Representation</b>				
2.1	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.	The Committee and Pension Board meet jointly for every Committee meeting.		
	These include:-			
	i) employing authorities (including non-scheme employers, e.g. admitted bodies);	Fife Council is represented. The Board has 4 employer representatives.	Yes	
	ii) scheme members (including deferred and pensioner scheme members);	The Board has 4 employee representatives appointed by the Trade Unions.	Yes	
	iii) where appropriate independent professional observers;	The fund employs an Independent Professional Observer who attends each Committee meeting and Pensions Board meeting.	Yes	
	and			
	iv) expert advisors (on an ad-hoc basis)	Expert Advisers attend routinely as required	Yes	
2.2	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All Committee members and Board representatives receive the same access to all papers and training and are given the opportunity to contribute, challenge and debate fully in the decision making process.	Yes	
<b>Selection and Role of Lay Members</b>				
3.1	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	All new members of the Committee are required to attend induction training, which also provides them with guidance from the Council's Democratic Services Division about their role and responsibilities. In addition they are all asked to complete The Pension Regulators e-learning toolkit.	Yes	
3.2	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	This is a standing item on every Committee agenda.	Yes	

	<b>Compliance Standard</b>	<b>Arrangements in Place/Action Taken</b>	<b>Action Complies with Principle?</b>	<b>Reason for non-compliance</b>
			<b>Yes / No / Partial</b>	<b>(if applicable)</b>
<b>Voting</b>				
4.1	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	The 9 councillors have equal voting rights.	Yes	
<b>Training/Facility Time/Expenses</b>				
5.1	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility, time and reimbursement of expenses in respect of members involved in the decision-making process.	A training policy is in place which requires all new members of the Committee to undertake induction training provided by officers. Internal training events are designed to cover a range of pension administration and investment matters. Seminars and training events are offered by the Fund's external professional advisers, Fund Managers and other providers.	Yes	
		Training costs and expenses incurred are met by the Pension Fund.		
5.2	That where such a policy exists, it applies equally to all members	The Training Policy applies to all members of Committee and the Board.	Yes	
5.3	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	In line with the approved training policy, training is offered on a planned basis in line with Committee requirements, the policy requires a minimum of 14 hours per annum. Training need is identified from a variety of sources including a Training Needs Analysis questionnaire. Members are required to record details and advise of training attended. Monitoring of activities is undertaken by the Committee.	Partial	Partial compliance is recorded because not all members of the Committee have complied with the policy and completed the minimum time requirement.
<b>Meetings (frequency/quorum)</b>				
6.1	That an administering authority's main committee or committees meet at least quarterly.	Meetings are held quarterly and additional meetings are held when necessary.	Yes	
6.2	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable – there is no secondary committee or panel.		

	<b>Compliance Standard</b>	<b>Arrangements in Place/Action Taken</b>	<b>Action Complies with Principle?</b>	<b>Reason for non-compliance</b>
			<b>Yes / No / Partial</b>	<b>(if applicable)</b>
6.3	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employer Forum held annually. The Pension Board formally provides for stakeholder involvement and representation.	Yes.	
<b>Access</b>				
7.1	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members, Board representatives and observers are treated equally in terms of access to papers, documents and advice.	Yes	
<b>Scope</b>				
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the committee includes all pension related matters within the terms of Local Government Pension Scheme legislation and the Pensions Regulator requirements.	Yes	
<b>Publicity</b>				
9.1	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	The Annual Governance Statement and Governance Compliance statement are available are included in the Pension Fund Annual Report and Annual Accounts.  <a href="#">Council governance documents are available on the Council website</a>	Yes	



## ACTUARIAL STATEMENT

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

### Description of Funding Policy

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

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

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

### Funding Position as at the last formal funding valuation

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

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

### Principal Actuarial Assumptions and Method used to value the liabilities

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

#### Method

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

## Assumptions

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

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

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

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

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

\* Currently aged 45.

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

## Experience over the period since 31 March 2022

Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but recovered very strongly in 2020 and 2021. Markets have continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2020 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

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

Robert Bilton FFA

For and on behalf of Hymans Robertson LLP  
30 May 2023

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

## REMUNERATION REPORT

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

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

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

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

## STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

### The Administering Authority's Responsibilities

The Authority is required: -

- Make arrangements for the proper administration of Fife Pension Fund financial affairs and to secure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Executive Director Finance and Corporate Services.
- Manage the affairs of the Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014 and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

## **Responsibilities of Executive Director Finance and Corporate Services**

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

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

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

The Executive Director Finance and Corporate Services has also: -

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

I certify that the financial statements give a true and fair view of the financial position of the Fife Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2023.

Eileen Rowand  
Executive Director Finance and Corporate Services

## Fife Pension Fund Accounts

### Fund Account

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

2021-22			2022-23
£m		Notes	£m
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(116.874)	Contributions Receivable	6	(118.346)
(1.965)	Transfers in from other pension funds		(1.867)
(118.839)			(120.213)
93.741	Benefits Payable	7	98.974
3.855	Payments to and on Account of Leavers	8	2.629
97.596			101.603
<b>(21.243)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>(18.610)</b>
16.327	Management Expenses	9	11.134
<b>(4.916)</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>(7.475)</b>
	<b>Returns on investments</b>		
(28.662)	Investment Income	10	(45.286)
0.345	Taxes on income		0.429
(194.926)	(Profit) and losses on disposal of investments and changes in the market value of investments	11a	163.522
<b>(223.243)</b>	<b>Net return on investments</b>		<b>118.665</b>
<b>(228.159)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>111.189</b>
3,303.159	Opening net assets of the scheme at 1 April		3,531.319
228.159			(111.189)
<b>3,531.319</b>	<b>Closing net assets of the scheme at 31 March</b>		<b>3,420.129</b>

## Fife Pension Fund Accounts

### Net Asset Statement

The Net Asset Statement sets out the value, as at the statement date, of all assets and current liabilities of the Fund. The net assets of the Fund (assets less current liabilities) represents the funds available to provide for pension benefits as at 31 March 2023.

2021-22			2022-23
£m		Notes	£m
	<b>Investments</b>		
3,537.504	Investment Assets	11b	3,431.715
(3.677)	Investment Liabilities	11b	(6.196)
<b>3,533.827</b>	<b>Total net investments</b>		<b>3,425.519</b>
	<b>Current Assets</b>		
1.692	Contributions due from Employers		0.898
3.525	Cash Balances		1.940
0.300	Debtors	17	0.305
5.517			3.142
	<b>Current Liabilities</b>		
(3.489)	Unpaid Benefits		(5.076)
(4.536)	Other Current Liabilities		(3.456)
(8.025)			(8.532)
<b>(2.508)</b>	<b>Net Current Assets &amp; Liabilities</b>		<b>(5.390)</b>
<b>3,531.319</b>	<b>Net Assets of the fund available to fund benefits at the end of the year</b>		<b>3,420.129</b>

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

The unaudited financial statements were issued on 30 June 2023.

Eileen Rowand  
Executive Director Finance and Corporate Services

## Notes to the Fife Pension Fund Accounts for the year ended 31 March 2023

### 1 Description of Fund

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

#### General

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

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

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

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

#### Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. The fund is also open to elected members of the Council.

Organisations participating in the fund include the following:

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

Fife Council Pension Fund	31 March 2022	31 March 2023
Number of employers	20	20
<b>Number of employees in scheme</b>		
Fife Council	13,504	13,951
Other employers	2,020	2,064
<b>Total</b>	<b>15,524</b>	<b>16,015</b>
<b>Number of pensioners</b>		
Fife Council	13,303	13,738
Other employers	1,374	1,488
<b>Total</b>	<b>14,677</b>	<b>15,226</b>
<b>Deferred Members</b>	<b>7,790</b>	<b>8,228</b>
<b>Total number of members</b>	<b>37,991</b>	<b>39,469</b>

## 1 Description of Fund ( continued )

### Changes in Membership

No employees exited the fund on this basis in 2022-23

### Funding

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

### Scheme Benefits

The LGPS is a defined benefits scheme which is exempt approved for tax purposes.

From 1st April 2015, benefits are built up at 1/49th of pensionable pay on a career average basis. Prior to that date benefits were built upon a final salary basis. These benefits are fully protected on the basis they were built up.

The following table gives a summary of scheme benefits

Membership up to 31 March 2009	Membership from 1 April 2009 to 31 March 2015	Membership from 1 April 2015
Annual Pension = (Service years / days x Final Pay) / 80	Annual Pension = (Service years / days x Final Pay) / 60	Annual Pension = Annual Pensionable pay/49
+	+	+
Automatic tax-free cash lump sum = 3 x pension	No automatic tax-free cash lump sum but can convert pension	No automatic tax-free cash lump sum but can convert pension
+	+	+
<ul style="list-style-type: none"> <li>- Annual revaluation and pensions increase in line with CPI inflation</li> <li>- Partners' and dependents' pensions</li> <li>- Ill health protection</li> <li>- Death in service protection</li> </ul>		

## 2 Basis of Preparation

The statement of the accounts summarises the fund's transactions for the 2022-23 financial year and its position at the year end as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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



### 3 Statement of Accounting Policies

#### a) General

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23, (the Code) which incorporates the International Financial Reporting Standards, in particular International Accounting Standard (IAS) 26 Retirement Benefit Plans, the accounting standard applicable for Pension Funds. The Code also adopts parts of the Financial Reports of Pension Schemes - Statement of Recommended Practice 2018, such as the format of the accounting statements.

#### b) Accruals

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

#### c) Valuation of Investments

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

#### d) Foreign Currency Transactions

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

#### e) Contributions and Benefits

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

#### f) Transfer Values

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

#### g) Investment Income

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

#### h) Administrative and Investment Management Expenses

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

#### i) Cash and Cash Equivalents

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

#### j) VAT

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

#### k) Taxation

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

#### l) Financial Assets

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

### 3 Statement of Accounting Policies ( continued )

#### m) Financial Liabilities

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

#### n) Actuarial Present Value of Promised Retirement Benefits

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

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of note to the net asset statement (Note 16).

#### o) Additional Voluntary Contributions (AVC)

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

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

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

#### p) Derivatives

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

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

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

#### q) Fair value measurement

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

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

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

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

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

**Level 3** – unobservable inputs for the asset or liability.

#### r) Prior Year Adjustments

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

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

#### 4 Critical Judgements in Applying Accounting Policies

##### Actuarial present value of promised retirement benefits

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

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

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

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

## 6 Contributions Receivable

### By Category

2021-22		2022-23
£m		£m
(22.671)	<b>Employees' Contributions</b>	<b>(23.270)</b>
	Employers' Contributions	
(92.227)	Normal contributions	(94.726)
(1.976)	Augmentation contributions	(0.350)
<b>(94.203)</b>	<b>Total employers' contributions</b>	<b>(95.077)</b>
<b>(116.874)</b>		<b>(118.346)</b>

### By authority

2021-22		2022-23
£m		£m
(99.846)	Fife Council	(100.914)
(8.049)	Scheduled bodies	(8.584)
(8.979)	Admitted bodies	(8.848)
<b>(116.874)</b>		<b>(118.346)</b>

## 7 Benefits Payable

### By Category

2021-22		2022-23
£m		£m
71.858	Pensions	76.428
18.528	Lump sum retirement benefits	19.509
3.356	Lump sum death benefits	3.037
<b>93.741</b>		<b>98.974</b>

### By authority

2021-22		2022-23
£m		£m
83.162	Fife Council	88.277
4.403	Scheduled bodies	4.550
6.176	Admitted bodies	6.147
<b>93.741</b>		<b>98.974</b>

## 8 Payments to and on Account of Leavers

2021-22		2022-23
£m		£m
0.239	Refunds to members leaving service	0.317
(0.000)	State Scheme Premiums	0.003
	Transfers to other Schemes	
3.616	Individuals	2.310
<b>3.855</b>		<b>2.629</b>

## 9 Management Expenses

2021-22		2022-23
£m		£m
1.736	Administrative costs	1.917
13.991	Investment management expenses	8.728
0.600	Oversight and governance costs	0.490
<b>16.327</b>		<b>11.134</b>

Included in the oversight and governance costs is the external audit fee of £0.042m ( £0.039m 2021-22)

### 9a Investment Management Expenses

2022-23	Management Fees £m	Performance Related Fees £m	Transaction Costs £m	Total £m
Pooled Investments	0.530	0.000	0.391	0.921
Equities	1.106	0.000	(0.216)	0.891
Bonds	(0.061)	0.000	(0.046)	(0.107)
Pooled Property Investments	0.516	0.000	0.666	1.183
Private Equity/Infrastructure	3.742	0.709	1.097	5.548
Cash	0.000	0.000	0.118	0.118
	<b>5.834</b>	<b>0.709</b>	<b>2.010</b>	<b>8.553</b>
Custody Fees				0.175
				<b>8.728</b>

2021-22	Management Fees £m	Performance Related Fees £m	Transaction Costs £m	Total £m
Pooled Investments	2.345	0.000	1.658	4.003
Equities	1.849	0.000	0.326	2.175
Bonds	0.641	0.041	0.159	0.841
Pooled Property Investments	0.465	0.000	1.684	2.148
Private Equity/Infrastructure	3.349	0.845	0.432	4.627
Cash	0.000	0.000	0.081	0.081
	<b>8.649</b>	<b>0.886</b>	<b>4.341</b>	<b>13.876</b>
Custody Fees				0.115
				<b>13.991</b>

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

Fife Pension Fund complies with CIPFA guidance in terms of accounting for and disclosing transaction costs. Continued participation in the Cost Transparency Initiative and completion of templates has enhanced disclosure of costs.

## 10 Investment Income

2021-22		2022-23
£m		£m
(6.590)	Fixed interest securities	(6.041)
(7.541)	Equity dividends	(12.966)
(8.242)	Pooled property investments	(9.625)
(0.360)	Pooled investments-unit trusts and other managed funds	(1.424)
(5.637)	Private equity	(11.908)
(0.028)	Interest on cash deposits	(2.952)
(0.263)	Securities Lending	(0.370)
0.000	Broker commissions recaptured	0.000
<b>(28.662)</b>		<b>(45.286)</b>

## 11a Reconciliation of Movements in Investments and Derivatives

### Purchases and sales of derivatives are recognised as follows:

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

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

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

2022-23	Value at 31 March 2022	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2023
	£m	£m	£m	£m	£m
Fixed interest securities	369.831	335.588	(116.326)	(96.730)	492.364
Equities	578.569	177.351	(104.053)	(43.557)	608.309
Pooled Investments	1,861.442	1.685	(428.008)	(11.334)	1,423.786
Pooled Property Investments	242.641	16.736	(5.940)	(44.037)	209.399
Private Equity/Infrastructure	299.640	205.030	(38.162)	28.049	494.556
	<b>3,352.123</b>	<b>736.389</b>	<b>(692.489)</b>	<b>(167.609)</b>	<b>3,228.414</b>
Derivative contracts:					
Futures	0.058	6.932	(6.640)	(0.397)	(0.048)
Purchased/written options	0.000	0.000	0.000	0.000	0.000
Forward currency contracts	(0.136)	0.986	(0.476)	(0.241)	0.133
	<b>3,352.045</b>	<b>744.307</b>	<b>(699.605)</b>	<b>(168.247)</b>	<b>3,228.500</b>
Other investment balances	(0.058)			0.200	0.048
Cash deposits	180.992			0.993	197.784
Amount receivable for sales of investments	0.394			(0.000)	0.000
Investment income due	3.819			0.000	5.241
Amount receivable for pending spot FX	0.000			(0.817)	0.000
Amount payable for purchases of investments	(3.364)			(0.002)	(6.054)
<b>Total Investment Assets</b>	<b>3,533.827</b>			<b>(167.873)</b>	<b>3,425.519</b>

Trading gains and market value movements accounted for £163.522m per the Fund Account. This is different to the £167.873m reported above. The reason for this difference is £4.351m of indirect management expenses which have been included within note 9 to the accounts

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

2021-22	Value at 31 March 2021	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2022
	£m	£m	£m	£m	£m
Fixed interest securities	272.647	150.284	(39.878)	(13.221)	369.831
Equities	670.289	78.346	(150.936)	(19.130)	578.569
Pooled Investments	1,820.022	2.874	(134.316)	172.861	1,861.442
Pooled Property Investments	205.494	17.056	(14.114)	34.205	242.641
Private Equity/Infrastructure	160.813	134.479	(7.707)	12.054	299.640
	<b>3,129.266</b>	<b>383.039</b>	<b>(346.951)</b>	<b>186.769</b>	<b>3,352.123</b>
Derivative contracts:					
Futures	(0.006)	4.397	(4.437)	0.105	0.058
Purchased/written options	0.000	0.000	0.000	0.000	0.000
Forward currency contracts	0.083	0.312	(0.374)	(0.156)	(0.136)
	<b>3,129.342</b>	<b>387.747</b>	<b>(351.762)</b>	<b>186.718</b>	<b>3,352.045</b>
Other investment balances	0.006			(0.054)	(0.058)
Cash deposits	174.697			0.375	180.992
Amount receivable for sales of investments	0.000			0.000	0.394
Investment income due	2.740			0.000	3.819
Amount receivable for pending spot FX	0.000			0.053	0.000
Amount payable for purchases of investments	(0.356)			0.002	(3.364)
<b>Total Investment Assets</b>	<b>3,306.428</b>			<b>187.094</b>	<b>3,533.827</b>

Trading gains and market value movements accounted for £194.926m per the Fund Account. This is different to the £187.094m reported above. The reason for this difference is £7.832m of indirect management expenses which have been included within note 9 to the accounts



## 11b Analysis of Investments

2021-22		2022-23
£m		£m
	<b>Investment assets</b>	
369.831	Bonds	492.364
578.569	Equities	608.309
	Pooled Investments	
496.503	Fixed income unit trust	336.559
1,364.939	Equity unit trust	1,087.226
242.641	Pooled property investments	209.399
299.640	Private equity/Infrastructure	494.556
0.000	Property	0.000
0.000	Diversified Alternatives	0.000
	Derivative contracts:	
0.164	Futures	0.086
0.000	Purchased/written options	0.000
0.013	Forward currency contracts	0.142
0.000	Swaps	0.000
180.992	Cash deposits	197.784
3.819	Investment Income due	5.241
0.394	Amounts receivable for sales	0.000
0.000	Amounts receivable for pending spot FX	0.000
0.000	Other Investment assets	0.048
<b>3,537.504</b>		<b>3,431.715</b>
	<b>Investment liabilities</b>	
	Derivative contracts:	
(0.106)	Futures	(0.134)
0.000	Purchased/written options	0.000
(0.149)	Forward currency contracts	(0.009)
0.000	Swaps	0.000
(3.364)	Amounts payable for purchases	(6.054)
0.000	Amounts payable for pending spot FX	0.000
(0.058)	Other Investment liabilities	0.000
<b>(3.677)</b>		<b>(6.196)</b>
<b>3,533.827</b>	<b>Total</b>	<b>3,425.519</b>

## 11c Investments Analysed by Fund Manager

Market Value 31 March 2022			Market Value 31 March 2023	
£m	%		£m	%
		<b>Fund Mangers</b>		
531.731	15.05	Baillie Gifford	226.088	6.60
282.009	7.98	Henderson Global Investors	222.110	6.48
183.999	5.21	Western Asset Management	81.205	2.37
541.458	15.32	Blackrock Investment Management (UK) Ltd	557.521	16.28
624.312	17.67	State Street Global Advisors	530.533	15.49
64.297	1.82	Partners Group	54.734	1.60
211.816	5.99	Other Infrastructure Managers	432.021	12.61
268.188	7.59	CBRE Global Investors	232.489	6.79
240.581	6.81	LPFI GLOVE	238.266	6.96
0.000	0.00	LPFI Gilts Fund	277.172	8.09
0.000	0.00	LPFI Global	147.886	4.32
96.504	2.73	LGIM 6A Corporate Bond Fund	86.967	2.54
307.897	8.71	LGIM Over 5 Year US Index-Link	167.175	4.88
35.014	0.99	Private Debt	47.979	1.40
<b>3,387.804</b>	<b>95.87</b>		<b>3,302.145</b>	<b>96.40</b>
		<b>Money Market Funds</b>		
146.023	4.13	Northern Trust Money Market Fund	123.374	3.60
<b>3,533.827</b>	<b>100.000</b>		<b>3,425.519</b>	<b>100.00</b>

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

Market Value 31 March 2022			Market Value 31 March 2023	
£m	%		£m	%
540.665	15.30	Aquila Life UK Equity Index Fund, managed by Blackrock Investment Management (UK) Ltd	556.695	16.25
190.226	5.38	Baillie Gifford Diversified Growth Fund, managed by Baillie Gifford	0.000	0.00
624.312	17.67	MPF Fundamental Index Global Equity Fund, managed by State Street Global Advisors	530.532	15.49
307.897	8.71	CG - > 5Yr US Inflation-Linked Index	167.175	4.88

## 11d Stock Lending

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year end, the value on loan was £69.287m (31 March 2022 £91.856m). This stock lending programme continues to be recognised in the fund's financial statements. Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year end, the fund held collateral (via the custodian) at a market value of £71.880m (31 March 2022 £94.140m) representing 103.7% of stock lent. Collateral consists of acceptable securities and government debt.

2021-22		2022-23
£m		£m
85.471	Bonds	54.082
6.385	Equities	15.205
<b>91.856</b>		<b>69.287</b>

## 12 Analysis of Derivatives

### Objectives and policies for holding derivatives

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

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

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

### Futures

Outstanding exchange traded futures contracts are as follows:

2022-23	Expires	Economic Exposure	Assets	Liabilities
			£m	£m
<b>Fixed Income Futures</b>				
Overseas fixed interest	one year	3.470	0.086	
UK fixed interest	one year	0.000		0.000
Overseas fixed interest	one year	(3.066)		(0.134)
		<b>0.404</b>	<b>0.086</b>	<b>(0.134)</b>

2021-22	Expires	Economic Exposure	Assets	Liabilities
			£m	£m
<b>Fixed Income Futures</b>				
Overseas fixed interest	one year	(3.328)	0.164	
UK fixed interest	one year	2.182		(0.016)
Overseas fixed interest	one year	3.251		(0.090)
		<b>2.105</b>	<b>0.164</b>	<b>(0.106)</b>

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

### Open forward currency contracts

Settlements	Currency Bought	Local Value	Currency Sold	Local Value	Assets	Liabilities
		£m		£m	£m	£m
One to six months	GBP	3.994	USD	(4.827)	0.093	
One to six months	GBP	1.751	EUR	(1.946)	0.039	
One to six months	GBP	0.074	AUD	(0.130)	0.004	
One to six months	GBP	0.207	JPY	(32.800)	0.006	
One to six months	USD	0.241	GBP	(0.202)		(0.007)
One to six months	JPY	7.818	GBP	(0.049)		(0.001)
One to six months	EUR	0.075	GBP	(0.066)		(0.000)
<b>Open forward currency contracts at 31 March 2023</b>					<b>0.142</b>	<b>(0.009)</b>
<b>Net forward currency contracts at 31 March 2023</b>						<b>0.133</b>
<b>Prior Year Comparative</b>						
<b>Open forward currency contracts at 31 March 2022</b>					<b>0.013</b>	<b>(0.149)</b>
<b>Net forward currency contracts at 31 March 2022</b>						<b>(0.136)</b>

### 13 Fair Value - Basis of Valuation

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

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

## 13a Fair Value Hierarchy

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

### Level 1

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

### Level 2

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

### Level 3

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

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

### 13a Fair Value Hierarchy ( continued )

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

Values at 31 March 2023	Quoted Market Price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Investment assets at fair value	1,908.393	872.202	644.924	3,425.519
	<b>1,908.393</b>	<b>872.202</b>	<b>644.924</b>	<b>3,425.519</b>

Values at 31 March 2022	Quoted Market Price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Investment assets at fair value	1,938.407	1,116.592	478.829	3,533.827
	<b>1,938.407</b>	<b>1,116.592</b>	<b>478.829</b>	<b>3,533.827</b>

### 13b Reconciliation of Fair Value Measurements within Level 3

	Market value 31 March 2022 £m	Transfers into Level 3 £m	Transfers out of Level 3 £m	Purchases during the year and derivative payments £m	Sales during the year and derivative receipts £m	Unrealised gains/ (losses) £m	Realised gains/ (losses) £m	Market value 31 March 2023 £m
Overseas Property Funds	0.007					0.000		0.008
Overseas Venture Capital	125.536			95.722	(31.590)	10.168	3.700	203.536
UK Fixed Income	0.000							0.000
UK Property Funds	167.392	9.385	0.000	7.319	(3.856)	(29.712)	(0.167)	150.360
Overseas Equities	2.054		(1.924)		(0.020)	(0.110)		(0.000)
UK Equities	9.736		(9.385)			(0.350)		0.000
UK Venture Capital	174.104	0.000	0.000	109.307	(6.572)	14.181	0.000	291.020
	<b>478.829</b>	<b>9.385</b>	<b>(11.309)</b>	<b>212.348</b>	<b>(42.039)</b>	<b>(5.823)</b>	<b>3.533</b>	<b>644.924</b>

## 14 Classification of Financial Instruments

31 March 2022				31 March 2023		
Fair value through profit and loss £m	Assets carried at Amortised Cost £m	Financial liabilities at amortised cost £m		Fair value through profit and loss £m	Assets carried at Amortised Cost £m	Financial liabilities at amortised cost £m
			<b>Financial assets</b>			
369.831			Fixed Interest Securities	492.364		
578.569			Equities	608.309		
1,861.442			Pooled Investments	1,423.786		
242.641			Pooled Property Investments	209.399		
299.640			Private Equity-Infrastructure	494.556		
0.177			Derivative contracts	0.228		
	180.992		Cash		197.784	
0.000	3.819		Other Investment balances	0.048	5.241	
	0.394		Debtors		0.000	
<b>3,352.300</b>	<b>185.205</b>	<b>0.000</b>		<b>3,228.690</b>	<b>203.025</b>	<b>0.000</b>
			<b>Financial Liabilities</b>			
		(0.255)	Derivative contracts			(0.143)
		(0.058)	Other Investment balances			0.000
		(3.364)	Creditors			(6.054)
<b>0.000</b>	<b>0.000</b>	<b>(3.677)</b>		<b>0.000</b>	<b>0.000</b>	<b>(6.196)</b>
<b>3,352.300</b>	<b>185.205</b>	<b>(3.677)</b>	<b>Total</b>	<b>3,228.690</b>	<b>203.025</b>	<b>(6.196)</b>
	<b>3,533.827</b>		<b>Grand Total</b>		<b>3,425.519</b>	

## 15 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Liquidity risk

Credit risk

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

### Liquidity Risk

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

All financial Liabilities are due within one year.

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

### Credit Risk

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

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

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

### Market Risk

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

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

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

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

### Currency Risk

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

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

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

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

The tables below summarise the fund's currency exposure as at 31 March 2023 and 31 March 2022 and the impact of a 10% increase/decrease in the value of the pound on the fund's asset classes.



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

<b>Market Risk - currency risk 31 March 2023</b>	<b>Asset Value</b>	<b>Asset Value on increase of 10%</b>	<b>Asset Value on decrease of 10%</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Currency Exposure-asset type</b>			
Overseas Equities	569.171	626.088	512.254
Overseas Unit Trusts	0.000	0.000	0.000
Overseas public sector bonds (quoted)	0.364	0.401	0.328
Overseas corporate bonds (quoted)	41.373	45.510	37.236
	<b>610.908</b>	<b>671.999</b>	<b>549.817</b>

<b>Market Risk - currency risk 31 March 2022</b>	<b>Asset Value</b>	<b>Asset Value on increase of 10%</b>	<b>Asset Value on decrease of 10%</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Currency Exposure-asset type</b>			
Overseas Equities	567.305	624.035	510.574
Overseas Unit Trusts	190.226	209.249	171.203
Overseas public sector bonds (quoted)	2.040	2.244	1.836
Overseas corporate bonds (quoted)	43.053	47.359	38.748
	<b>802.624</b>	<b>882.886</b>	<b>722.361</b>

### Interest Rate Risk

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

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

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

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

Market Risk - interest rate risk 31 March 2023	Duration (years)	Asset Values assumed £m	Asset Value on increase of 1% £m	Asset Value on decrease of 1% £m
<b>Asset Type</b>				
<b>Fixed Interest Securities</b>				
UK public sector (quoted)	10.52	72.646	65.002	80.291
UK corporate (quoted)	6.20	35.415	33.220	37.610
Overseas public sector (quoted)	1.53	0.364	0.359	0.370
Overseas corporate (quoted)	6.10	41.373	38.848	43.898
UK public sector index linked	10.73	342.566	305.799	379.332
<b>Cash &amp; cash equivalents</b>				
Cash		197.784	199.762	195.806
<b>Total</b>		<b>690.148</b>	<b>642.990</b>	<b>737.307</b>

Market Risk - interest rate risk 31 March 2022	Duration (years)	Asset Values assumed £m	Asset Value on increase of 1% £m	Asset Value on decrease of 1% £m
<b>Asset Type</b>				
<b>Fixed Interest Securities</b>				
UK public sector (quoted)	6.03	139.693	131.268	148.118
UK corporate (quoted)	7.28	41.821	38.777	44.864
Overseas public sector (quoted)	11.52	2.040	1.805	2.275
Overseas corporate (quoted)	7.04	43.053	40.021	46.085
UK public sector index linked	10.76	143.224	127.807	158.641
<b>Cash &amp; cash equivalents</b>				
Cash		180.992	182.802	179.182
<b>Total</b>		<b>550.823</b>	<b>522.480</b>	<b>579.165</b>

### Other Price Risk

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

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

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

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

Market Risk - other price risk 31 March 2023	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
<b>Asset Class</b>					
UK Equities	18.20	16.26	556.90	658.256	455.544
Global Equities	19.00	33.40	1,143.80	1,361.122	926.478
Infrastructure	16.00	14.22	486.80	564.688	408.912
Property	15.50	6.81	233.20	269.346	197.054
Corporate Bonds (short term)	3.60	0.64	21.80	22.585	21.015
Corporate Bonds (medium term)	7.50	8.34	285.40	306.805	263.995
Corporate Bonds (long term)	8.70	2.96	101.50	110.331	92.670
fixed gilts (short term)	2.00	0.09	3.00	3.060	2.940
fixed gilts (medium term)	6.00	1.11	37.90	40.174	35.626
fixed gilts (long term)	7.60	2.66	91.10	98.024	84.176
UK index linked gilts (short term)	0.00	0.00	0.00	0.000	0.000
UK index linked gilts (medium term)	7.20	0.79	27.10	29.051	25.149
UK index linked gilts (long term)	8.90	8.07	276.30	300.891	251.709
Cash	0.30	3.25	111.30	111.634	110.966
Absolute Return/Diversified Growth	8.90	0.00	0.00	0.000	0.000
Commodities	0.00	0.00	0.00	0.000	0.000
Private Debt	9.60	1.40	48.00	52.608	43.392
		<b>100.00</b>	<b>3,424.100</b>	<b>3,928.574</b>	<b>2,919.627</b>

Market Risk - other price risk 31 March 2022	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
<b>Asset Class</b>					
UK Equities	19.90	15.31	540.800	648.419	433.181
Global Equities	20.10	34.19	1,207.600	1,450.328	964.872
Infrastructure	14.60	5.39	190.200	217.969	162.431
Property	15.00	7.60	268.600	308.890	228.310
Corporate Bonds (short term)	3.50	0.66	23.400	24.219	22.581
Corporate Bonds (medium term)	8.10	4.57	161.300	174.365	148.235
Corporate Bonds (long term)	9.90	1.60	56.500	62.094	50.907
fixed gilts (short term)	2.10	1.00	35.300	36.041	34.559
fixed gilts (medium term)	6.80	1.99	70.200	74.974	65.426
fixed gilts (long term)	9.20	3.26	115.300	125.908	104.692
UK index linked gilts (short term)	4.10	0.00	0.000	0.000	0.000
UK index linked gilts (medium term)	7.30	6.74	237.900	255.267	220.533
UK index linked gilts (long term)	9.20	4.76	168.200	183.674	152.726
Cash	0.30	4.12	145.600	146.037	145.163
Absolute Return/Diversified Growth	9.10	7.82	276.100	301.225	250.975
Commodities	0.00	0.00	0.000	0.000	0.000
Private Debt	9.00	0.99	35.000	38.150	31.850
		<b>100.00</b>	<b>3,532.000</b>	<b>4,047.559</b>	<b>3,016.441</b>

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

When estimating the volatility the Fund Asset Value at 31 March 2023 was assumed to be £3.424bn. The 1 year weighted average volatility was 10.7% at 31 March 2023, meaning the 'value on increase' would be £3.929bn and the 'value on decrease' would be £2.920bn.

## 16 Actuarial Valuation

Employee contributions are fixed by statute and employers' basic contributions are assessed every three years by the actuary. The last valuation of the fund was carried out as at 31 March 2020 by Hymans Robertson and the actuarial statement, including assumptions made in the calculations, is contained in this Annual Report on page 26.

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

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

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

	31 March 2022	31 March 2023
	£m	£m
Present Value of Promised Retirement Benefits	4,000.000	2,701.000

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

### IAS 19 Assumptions used

	31 March 2022	31 March 2023
	%	%
Inflation / pension increase rate	3.20	2.95
Salary Increase rate	3.70	3.45
Discount rate	2.70	4.75

### Demographic assumptions

	Males	Females
<b>Future life expectancies assumed in the calculation</b>		
Current Pensioners	20.0	22.9
Future Pensioners	21.1	24.9

### Sensitivity Analysis

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

Change in assumptions at 31 March 2023	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount (£m)
0.1% decrease in the Discount Rate	2%	51
1 year increase in member life expectancy	4%	108
0.1% increase in the Salary Increase Rate	0%	6
0.1% increase in the Pension Increase Rate (CPI)	2%	46

## 17 Analysis of Debtors

2021-22		2022-23
£m		£m
0.220	Central Government	0.112
0.080	Other Debtors	0.193
<b>0.300</b>		<b>0.305</b>

## 18 Additional Voluntary Contributions (AVC)

2021-22 Contributions	Fund Value 31 March 2022		2022-23 Contributions	Fund Value 31 March 2023
£m	£m		£m	£m
0.140	1.184	Standard Life	0.160	1.048
1.176	5.341	Prudential	1.135	5.529
0.000	0.057	Clerical Medical	0.000	0.046
<b>1.315</b>	<b>6.582</b>		<b>1.294</b>	<b>6.623</b>

The final AVC report from Prudential is expected in September 2023. The figures in the note above are estimates.

## 19 Related Party Transactions

Fife Council, the administering authority of the fund, also provides support services for the fund and in 2022-23 charged £1.775m (2021-22 £1.645m) for those services.

Fife Council paid employers' contributions to the Pension Fund of £81.180m (2021-22 £80.580m) and collected and paid over employees's contributions of £19.734m (2021-22 £19.266m)

### Governance

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

## 19a Key Management Personnel

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

2021-22		2022-23
£m		£m
0.302	Salary, fees & Allowances	0.307
<b>0.302</b>		<b>0.307</b>

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

2021-22		2022-23
£m		£m
0.071	In year employer's pension contributions	0.075
	<b>Accrued Pension Benefits</b>	
0.136	Pension	0.147
0.213	Lump Sum	0.223

## **20 Events after the Reporting Date**

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

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

There have been no events since March 2023 which require disclosure.

## **21 Contingent Assets and Liabilities**

At 31 March 2023 there were no contingent assets or liabilities.

## **22 Impairment Losses**

No investment assets were subject to impairment during the year.

## **23 Accounting Standards Issued, not yet Adopted**

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

Accounting Standards not yet adopted are:-

- IFRS16 Leases.
- Definition of Accounting Estimates (Amendments to IAS 8).
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3).

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

## **MEMBERSHIP OF THE FUND**

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

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

The list of participating employers at 31 March 2023 is as follows: -

### **Scheduled Bodies**

Fife Council

Fife College

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

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

### **Admitted Bodies**

St Andrews Links Trust

Fife Housing Group

Citizens Advice & Rights Fife

Home-Start Levenmouth

Business Gateway Fife

Drug & Alcohol Project

Fife Intensive Rehabilitation & Substance Misuse Team (FIRST)

The Clued-Up Project

Forth & Oban

Fife Sport & Leisure Trust

Fife Coast & Countryside Trust

Fife Golf Trust

Fife Cultural Trust

Scotland's Rural College (SRUC)

Fife Resource Solutions

Sodexo

## FIFE PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

#### 1. Introduction

- 1.1 This Statement of Investment Principles (**SIP**) was agreed by the 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

- 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

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.
- 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

- 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

- 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

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

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**

### **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**

### **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.

## Appendix A – Investment Strategy (26 September 2022)

### 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 (formerly Gilts)	15%	15%	5% - 25%
Cash	0%	0%	0% - 25%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## 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>			<b>52.6%</b>
	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>			<b>18.0%</b>
	Property	CBRE	8.3%
	Global Infrastructure	Partners Group/Various	9.6%
<b>Non Gilt Debt</b>			<b>15.9%</b>
	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>			<b>8.0%</b>
	Government Bonds	Janus Henderson	4.9%
	Government Bonds	LPFI	3.2%
<b>Cash</b>			<b>5.5%</b>
	Cash	Various	5.5%

## Appendix C – Stewardship Statement

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

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 up-held. [Training Policy | Fife Pension Fund](#)
- 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.

## FIFE PENSION FUND COMMUNICATION POLICY

(Dec 2022)

### Introduction

Fife Pension Fund (the Fund), which is administered by Fife Council, provides pension administration and investment services for employers and employees of participating bodies of the fund.

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

The communication policy statement must set out:

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

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

### Communications Objectives

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

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

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

- Timely and factual and presented in plain language.
- Designed to meet the needs of each target audience.
- Delivered efficiently and effectively with an increased focus on digital communications

### Who we communicate with

- Scheme members.
- Scheme employers.
- Prospective scheme members and employers.
- Trade Unions.
- Pensions Committee
- Fife Pension Board
- Fife Council, as administering authority
- Staff in Pensions Administration and Investment Teams
- External service providers
- Other Scottish LGPS funds

### How we will communicate

#### Fund Website

Our website contains a comprehensive range of pension information such as:

- Scheme policies

- Scheme benefits
- Contact details
- Links to other useful sites

The scheme website can be found at [Home | Fife Pension Fund](#)

### **Fife Council Website**

The Pension Committee and Fife Pension Board agendas and minutes can be found on the main Council website. [Pensions Committee | Fife Council](#)

### **Member Self Service (MSS)**

Member Self Service is a secure online portal that provides all members with real-time, 24- hour access to personal pension data. Members can carry out the following:

- Update personal information e.g., change of address, nominations of beneficiaries
- View scheme membership and financial details
- View Annual Benefit Statements
- Access publications such as scheme guides, newsletters and factsheets
- Carry out pension quotes on demand without needing to contact the Pensions Team
- Upload any documents that the Pensions Team request
- Use the contact facility to raise any questions
- Pensioner members can access payslips and P60 details and check/update their bank details

Web address for the MSS portal – [Welcome - altair Member Self-Service \(fife.gov.uk\)](#)

### **General Communications**

The fund uses both paper mail and e-mail to send and receive general correspondence. Our business hours are Monday to Friday 9.00am to 4.00pm.

E-mail enquiries should be addressed to [pensions.section@fife.gov.uk](mailto:pensions.section@fife.gov.uk)

Postal enquiries should be addressed to:

Pensions Administration Team Fife House  
North Street Glenrothes Fife  
KY7 5LT

Telephone enquiries should be made to 03451 555555 Ext 849091 during standard business hours.

### **Employers' Meetings**

We 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.

### **Member Presentations**

Available to scheme members on specific pension related matters, such as HMRC pension tax rules or pre-retirement sessions.

### **Visit to our Office**

Scheme members can arrange to visit our office to speak to a member of our Pensions Administration Team, however appointments must be please pre-booked. We are also able to offer virtual meetings using Microsoft Teams where we can share documents with scheme members and answer any questions in the same way as a traditional face to face meeting

## **Specific Communications**

### **Pensioners**

Monthly payslips are available to view on Members Self-Serve. P60's will be available online with the option to request paper copies. The May payslips include reference to the annual Pensions Increase award.

### **Active Members**

On joining the scheme new members are issued with a letter confirming scheme membership including links to the website and the Member Self Service portal. All scheme members can access on Member Self Service an Annual Benefit Statements, including explanatory notes.

In the event of changes to scheme regulations, these will be brought to the attention of scheme members either through direct mail, publication on the Fund Website and/or via the employer's normal communication channels.

### **Deferred Members**

All deferred members can access on Member Self Service their Annual Benefit Statements including explanatory notes.

### **Prospective Members**

We work with employers to promote the benefits of membership of the scheme through promotional material, including scheme booklets, and access to the Fund website.

### **Scheme Employers**

The Fund communicates with scheme employers in the following ways:

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

### **Pensions Committee and Fife Pension Board**

The Committee and Board members directly receive all meeting papers electronically. Agendas, meeting papers and minutes are available on the Council's website.

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

### **Representatives of Members**

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

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

The Pension Team assists Trade Union representatives with member queries.



## Evaluation

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

If you want to get in touch with us about how we communicate, please contact us [Contact us | Fife Pension Fund](#)

## INVESTMENT COMMENTARY

**Provided by LPFI Ltd**

### **Investment Markets**

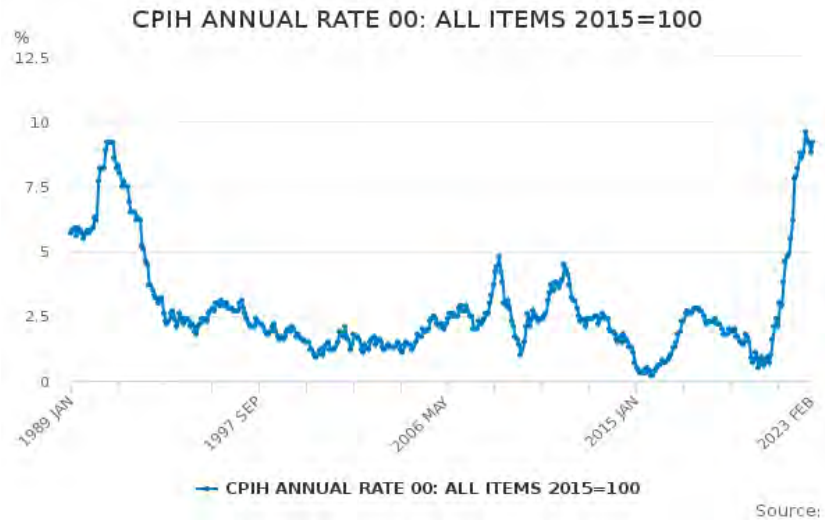
For the 12 months to 31 March 2023, global equities, as measured by the MSCI ACWI index, returned -1.4% in sterling terms (source: MSCI). However, the weaker pound masked a more pronounced decline of -7.4% in US dollar terms (source: MSCI). It was a year almost as extraordinary as 2020, when Covid emerged, and returns for most asset classes were curtailed by the challenging conditions.

Soaring inflation and central banks' policy responses dominated the backdrop for financial markets. The mounting pace of inflation was worsened by the supply shock brought about by the war in Ukraine, with UK consumer price inflation reaching 40-year highs. The reaction from most major central banks was to aggressively tighten monetary policy, marking a dramatic shift from the extremely low interest rates that had been in place since the financial crisis of 2008. This is an environment that many had become unaccustomed to and the unfamiliar conditions exposed frailties in the financial system, contributing in some part to the LDI crisis in the UK and the failure of two large US banks.

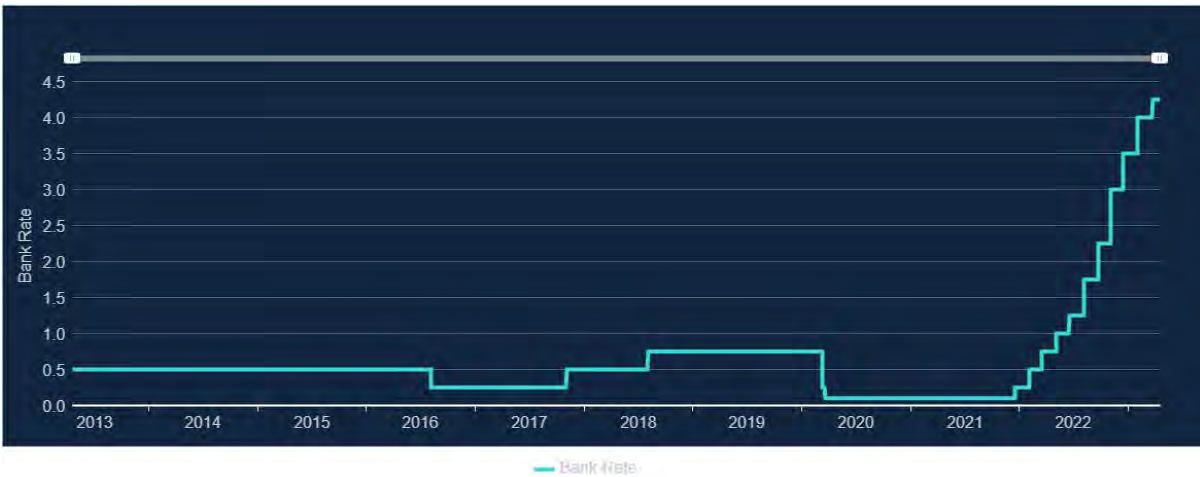
Government bond prices fell over the year, due to rising base rates and higher inflation, with the political crisis in the UK causing forced sales of long-dated gilts by some pension funds. 10-year gilt yields rose from 1.61% to 3.49% (reaching as high as 4.6%), giving an annual return of -10.9%. Although corporate bond credit spreads (the difference in yields between bonds of differing quality) widened over the year, it was the sharp rise in underlying government bond yields that caused most of the damage, with sterling investment grade credit returning -10.2% over the year. Commercial real estate returns were also strained by falling capital values as property owners, many of which are highly leveraged, contended with rising borrowing costs. However, some of the most eye-catching falls were among 'growth' stocks where valuations were severely marked down as sentiment for this part of the market soured.

Inflation's influence over investment markets appears set to continue with disinflation to pre-pandemic levels likely to take some time. However, there is cause to believe that inflation has already peaked amid moderating commodity prices and the cooling effect of monetary policy. With that, central banks appear to be nearing the peak of this tightening cycle which may signal a more favourable backdrop ahead for asset valuations. However, risk remains around whether inflation proves to be 'stickier' than hoped. Expectations for corporate earnings have held up well to date, though those forecasts may prove overly optimistic as economic growth deteriorates in the face of the tight monetary policy, declining real wages and heightened geopolitical tensions. Meanwhile, fiscal policy is handicapped by high debt burdens and costlier borrowing, as demonstrated by the rapid unwinding of the Truss government's plans. More positively, the recent reversal of China's 'zero-Covid' policy provides a welcome boost for growth. With several meaningful macroeconomic and geopolitical challenges to be navigated, it is hard to imagine that there will not be further significant financial market volatility in the coming years.

## UK Inflation (CPIH) and Bank of England Official Rate



Source: <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/155o/mm23>



Source: <https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>

The graph below shows index returns over 12 months to 31 March 2023 for a range of asset classes.



Source: FTSE, Bloomberg, MSCI, Portfolio Evaluation (MSCI ACWI, FTSE Actuaries Gilts >15 Yrs, FTSE UK Govs Index Linked >15 Yrs, iBoxx £ Non-Gilts, IPD Balanced Monthly & Quarterly Property Index – all GBP total return)

## **ADDITIONAL INFORMATION**

Actuaries:	Hymans Robertson LLP
Auditors:	Azets
Bankers:	Royal Bank of Scotland The Northern Trust Company
Investment Advisors:	LPFI Limited Stan Pearson Kirsty MacGillivray Hymans Robertson Investment Consultants
Fund Custodians:	The Northern Trust Company
Independent Professional Observer	Clare Scott
Legal Advisors:	CMS Cameron McKenna Nabarro Olswang LLP Fife Council – Legal Services

### **Comments and Suggestions**

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

Please email your comments to: [Pensions.section@fife.gov.uk](mailto:Pensions.section@fife.gov.uk)

### **Contact Details**

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

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

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

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

Email: [Banking.Investments@fife.gov.uk](mailto:Banking.Investments@fife.gov.uk)





**Fife  
Pension Fund**

Administered by Fife Council



30 June 23

Agenda Item No. 6

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## 2023/24 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 2023/24 financial year.

### Recommendation

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Pensions Committee is asked to review and approve the 2023/24 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 highest risk areas, 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 EqIA 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 2023/24 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 23 March 2023. The 2023/24 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 2023/24 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 In line with last year, the total productive days available during 2023/24 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 2023/24 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 2023/24 Internal Audit Plan will be submitted periodically.

## 3.0 Conclusions

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- 3.1 The 2023/24 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 2023/24 Internal Audit Plan will be submitted periodically to the Pensions Committee.

### List of Appendices

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- A. 2023/24 Internal Audit Plan
- B. High-level Audit Universe

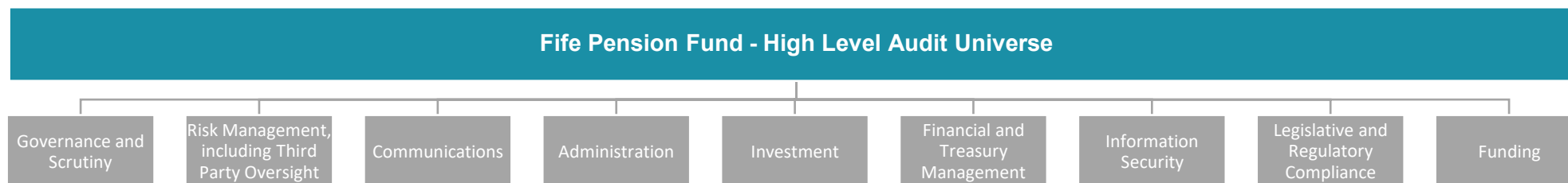
Report Contact:

Pamela Redpath

Service Manager, Audit and Risk Management Services

Email – [pamela.redpath@fife.gov.uk](mailto:pamela.redpath@fife.gov.uk)

2023/24 INTERNAL AUDIT PLAN		
<i>Audit Review / Activity</i>	<i>Proposed Coverage</i>	<i>Risk Description - Inherent (Original) Risk Score</i>
Governance / Oversight and Scrutiny	High level review of the arrangements in place to ensure there is appropriate governance / oversight and scrutiny of Fife Pension Fund's key activities, including the effectiveness of the Board and Committee.	Committee and Board do not adhere to governance arrangements in place such as being quorate, Terms of Reference and appropriate Board Constitution. 12 - Medium
Investment Strategy Implementation	Review of the governance arrangements in place for seeking / receiving investment advice / guidance (including via the Joint Investment Strategy Panel, JISP) and ensuring related decision making is open, transparent and cognisant of Fife Pension Fund's aims and objectives.	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. 9 - Medium
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.	-



30 June 2023

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 quarter to 31 March 2023.

### **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.
- (3) Approve the proposed set of KPIs to be presented for 2023-24 per Appendix B

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

## 2.0 Key Performance Indicators

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### 2.1 KPI 1 - Key Processes - Quarter 4

- 2.1.1 Performance is measured on a quarterly basis to provide a picture of recent performance.
- 2.1.2 KPI information for the quarter 1 January 2023 to 31 March 2023, and a comparator for the for the same quarter last year are detailed as Appendix A.
- 2.1.3 Overall performance for the fourth quarter remains consistently strong for 3 of the 7 key processes measures and reported. However, the remaining processes fall short of the target completion within the agreed days, explanations are provided in the following paragraphs.
- 2.1.4 There has been improvement in the processing of Refunds from quarter 3, although performance remains below target. Three new team members started in February and extensive training is being carried out and the benefit is now starting to be seen.
- 2.1.5 Performance on dealing with Transfers In remain below the target. Staff turnover, and recruitment of less experienced team members is one of the reasons. However, in-house training is being carried out and we should see an improvement over the next few quarters. The drop in performance in relation to the target is further impacted following a change to the discount rate used for public service pension schemes. HM Treasury announced that the factors used to calculate transfer values for non-Club transfers will change and all Cash Equivalent Transfer Value (CETVs) calculations were suspended until the new factors became available. As the tasks were already created and open in Altair the performance against the target is continuing to drop. Unfortunately, there is no provision in the Altair task management system to freeze/suspend tasks therefore the performance against the target will continue to drop until the calculation process can be restarted.
- 2.1.6 The performance of processing ill health retirals remains below target. As reported previously, the process is complex, and we often require additional 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, which is an additional step. The team are currently considering the method for sourcing Assumed Pensionable Pay to facilitate ill health retiral calculations to ensure these are accurate, this is in turn is adding further delays into the preparation of estimates. Discussion is ongoing with the employer concerned to agree the most efficient way to do this. Additionally, changes to the process have been made by the largest scheme employer regarding the release of completed estimates. These factors have an impact on the time taken to complete the process from start to finish, therefore a complete review of the target and number of days needs considered.

## **2.2 KPI 2 - Total Days Elapsed**

2.2.1 This graph details the average amount of days it takes to complete each process reported on in the Key Processes. A comparison of the previous 4 quarters is also shown. Each process has multiple steps incorporated into it within our task management system. When one step is completed, it is then referred to another member of the team and so on until all steps are complete.

The graph is illustrating the number of days taken to carry out each process compared to previous quarters. This allows assessment if processes are taking longer or otherwise and investigate the reasons.

## **2.3 KPI 3 – Casework Ongoing**

2.3.1 This table provides a breakdown of the total caseload for each of the 7 key processes over an annual rolling year. The table illustrates the volume of cases being dealt with by the Team and assessment of processes completed and those that remain outstanding. The number of items being progressed is consistent each quarter. The number of outstanding cases is reducing with the exception of retireals and transfers in.

## **3.0 Administration Team Activity**

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3.1 In addition to the key processes being carried out the team also continued with further activities as follows:

### **3.2 Business as usual**

3.2.1 The annual Employer's Forum was held in March. There was a pre-valuation presentation by our actuary Rob Bilton, as well as updates from administration team officers.

3.2.2 The annual Pension Increase Award (10.1% applicable from 10 April 2023) was run in our Test and Live environments in Altair. All queries/errors were corrected, and system updated prior to April payroll being run.

3.2.3 The factor tables in our Altair Live and Test environments have been updated for 2023/24.

### **3.3 Staff Training and development**

3.3.1 Several members of the administration team attended an on-line presentation held by our legal advisers, CMS, on the legal requirements of the Pensions Dashboard.

3.3.2 Our software system providers, Heywoods, also held an on-line presentation on Pensions Dashboard. This presentation alerted our team to the data requirements of the dashboard, and the role that Heywoods will play as they are an ISP (Information Sharing Provider).

3.3.3 Public Service schemes are due to connect to dashboards by 30 September 2024, this date is subject to change as the dashboard timetable is "reset" and a revised timetable issued.



## 3.4 Employers

- 3.4.1 Working closely with colleagues from Fife Council's payroll and Business Technology Solutions, work is on-going to source and adapt the relevant payroll information from Fife Council and all the Fife Council Bureau payrolls for the McCloud project. Before any Altair update can be done, work needs to be carried out to match payroll records (pre and post Oracle payroll records) with Altair records. There are numerous complexities with collating and matching the data being identified, in part down to the number of members involved, but mainly due to matching the data given the change of payroll systems during the period involved. The variety of working patterns and multiple positions adds to the complexity of the data collation. This has run over the expected timescales but the team continues to work with Fife Council to move things forward.
- 3.4.2 Alongside the collation of the data, the team are proactively developing and testing spreadsheet tools to assist Fife Council's payroll team with the collation of the data into the prescribed format for processing and upload to Altair to allow calculations to be completed. For all other employers, the data has been received and work has now started to upload the data to Altair to create the McCloud data views required before the final rectification.
- 3.4.3 A consultation is currently under way on how reforms affect scheme members involving aggregation is now open, looking in detail at the "underpin", a major element of the remedy. The consultation is due to close on 30<sup>th</sup> June. Regulations are expected to be published in early September before coming into force on 1 October. There is a risk that the pension records held in Altair will not be updated in time and there will be a subsequent delay in processing the necessary calculations. These are required to establish whether the member would have been better off receiving final salary benefits as opposed to CARE benefits.
- 3.4.4 At this point, there are no definitive indication of when the remedy requires to be implemented. Further, there is currently no information in respect of any penalties for non-compliance.

## 4.0 Review of KPIs

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- 4.1 As reported at the last committee a desk top review of KPIs has been carried out which considered reporting by other Funds, work done by Internal Audit and reference to our Administration Strategy.
- 4.2 The review concluded that Fife Pension Fund measures similar performance indicators to other funds. However, most other funds also measure performance in additional areas, these being Transfers Out, Processing Divorce Valuations and payments of death grants. It is proposed that these performance measures are adopted for the Fife Pensions Fund.
- 4.3 The review also highlighted that the fund would also benefit from inclusion of performance-based information in respect of customer and staff satisfaction, as well as the addition of measures of performance of annual activities undertaken such as Annual Benefit Statements.

- 4.4 There is also no information included that reflect the performance of scheme employers.
- 4.5 The production of Key Performance Information is useful in assessing the performance of the team, ensuring that cases are dealt with on a timeous basis and to an agreed standard. In addition, monitoring performance assists with directing the level of resources required to manage the Administration functions.
- 4.6 Part of the review considered the CIPFA document Administration in the LGPS a guide for Pensions Authorities which outlines best practice and industry standards and statutory requirements.
- 4.7 Following this review, it is proposed that KPI reporting should adopt a holistic approach that covers, the following areas:
1. Key administration procedure duties – these are based on the existing KPI information already measured with some additional processes
  2. Key administration statutory duties
  3. Scheme employer performance
  4. Member experience (service delivery)
- 4.8 Basing the KPIs on this approach aligns well to the Administration Strategy, the individual KPIs are detailed in Appendix B.
- 4.9 For processed categorised as key administration procedures, targets require to be set. It is proposed that a consistent target of 90% is set for all new procedures, which are not currently measured. This has been chosen to reflect a number of changes that have taken place in the team which are taking time to settle in. These include a number of new team members as well as promotion of existing team members which both result in training and development, the introduction of blended working following the pandemic which has meant new ways of working and the continued improvement of procedures which are being rolled out.
- 4.10 Where procedures are currently being measured and there is an awareness of the current performance the target number of days and percentage completion has remained the same for the following ; processing of new retirals and redundancy estimates.
- 4.11 In some instances the target being aimed for has increased based on the current levels of performance and the number of days taken to complete processes. These are refunds and notification to new members.
- 4.12 Considering the current performance and the factors impacting on achievement, some targets have been revised. These are transfers and ill health retirals. Targets have been reduced to 90% completion within 10 days and 15 days respectively. The target number of days for ill health retirals has also increased from 12 to 15 working days in recognition of the complexity of the process.
- 4.13 It is further proposed that following monitoring of the performance against targets, targets are then flexed to reflect the experience gained by the Team as well as improvements to processes. 2023-24 will be used as a baseline year. The Administration Strategy will also require to be updated should target days need to be updated.

- 4.14 Within the existing suite of KPIs two processes are measured which are not separate or stand-alone processes identified in the Administration Strategy. These processes are Ill Health Estimates and Redundancy Estimates. Performance on these processes will still be measured and reported (Table 4 of Appendix B provides further details).
- 4.15 Performance against statutory targets for completion of Annual Benefits Statements, Pension Savings Statements, Annual increase notification to pensioners and TPR return will also be measured and reported to committee on an annual basis.
- 4.16 Statistics will also be captured and reported in relation to employer performance.
- 4.17 It is also intended to complete both employer and member surveys to help gauge customer satisfaction.

## 5.0 Conclusions

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- 5.1 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 March 2023.
- 5.2 Other activities continue to be advanced by the Team including a review of processes and training.
- 5.3 Revised KPIs have been developed and are presented for consideration by the Committee.

### List of Appendices

Appendix A – Pension Team Performance Indicators

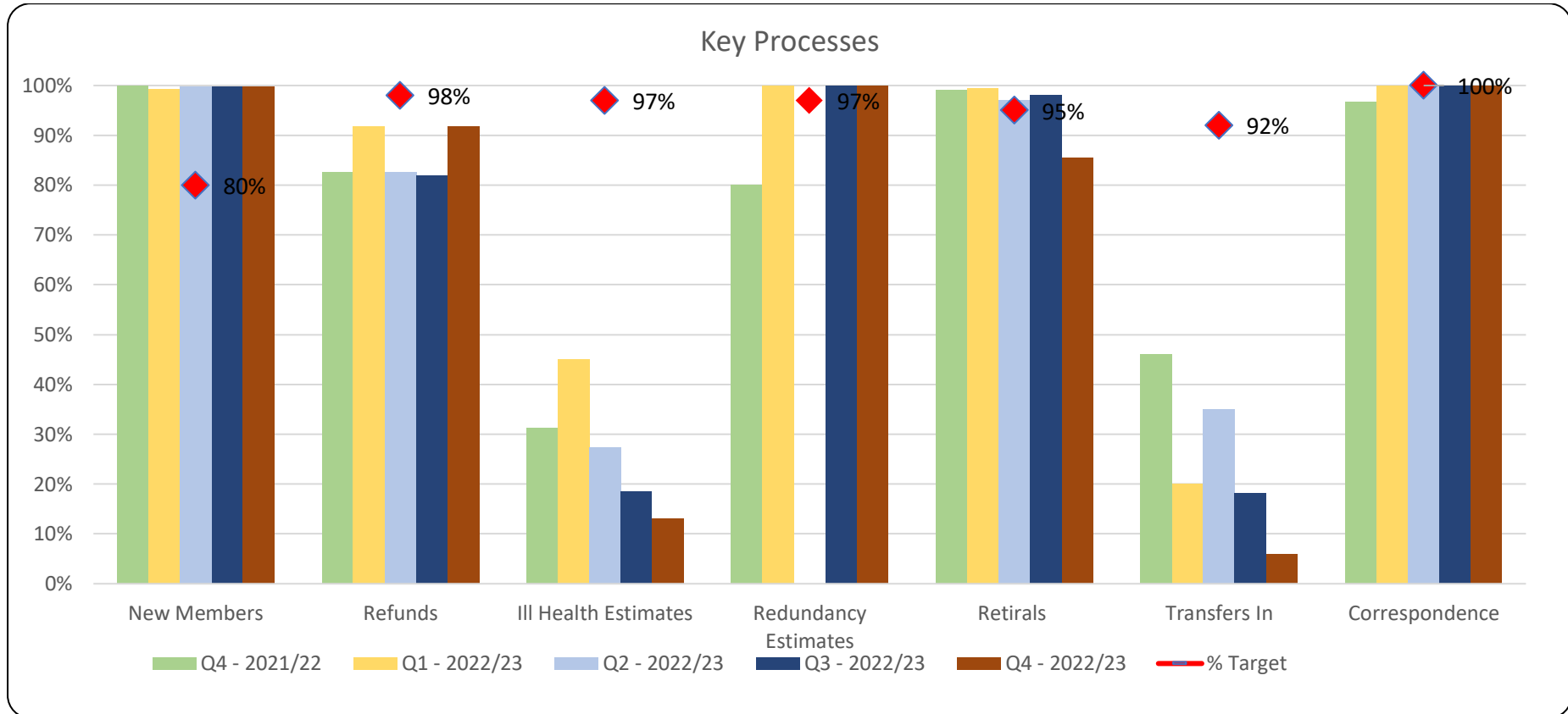
Appendix B – Fife Pension Fund proposed KPIs

### Report Contact

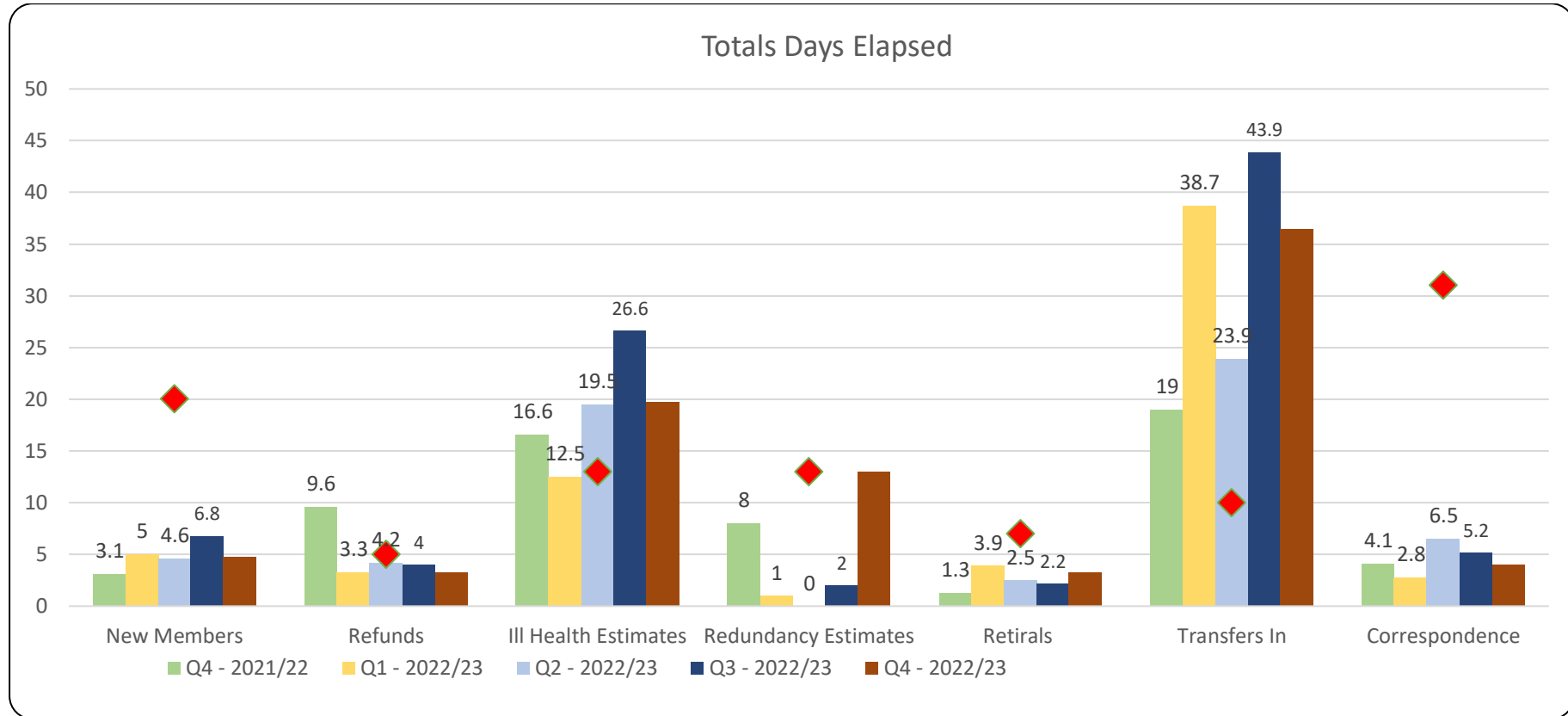
John Mackie  
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North Street,  
Glenrothes,  
Fife, KY7 5LT

Email – [john.mackie@fife.gov.uk](mailto:john.mackie@fife.gov.uk)

KPI 1: Key Process



KPI 2: Total Days Elapsed



## KPI 3: Casework Ongoing

Ongoing Casework at End of Reporting Quarter	Q4 2021/22				Q1 2022/23				Q2 2022/23				Q3 2022/23				Q4 2022/23			
Key Process	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding
New Members	3	517	519	1	1	1081	970	112	112	763	796	79	79	664	720	23	23	562	584	1
Refunds	44	187	186	45	45	190	203	32	32	339	256	115	115	283	368	30	30	255	271	14
Ill Health Estimates	5	17	18	4	4	24	21	7	7	35	23	19	19	22	28	13	13	24	25	12
Redundancy Estimates	0	5	5	0	0	2	2	0	0	0	0	0	0	1	1	0	0	3	1	2
Retirals	175	241	220	196	196	232	212	216	216	199	196	219	219	218	175	262	262	231	197	296
Transfers In	33	22	18	37	37	18	17	38	38	15	25	28	28	12	12	28	28	28	23	33
Correspondence	3	34	36	1	1	20	20	1	1	28	24	5	5	14	18	1	1	20	19	2

## FIFE PENSION FUND – PROPOSED KPIS

**Table 1 : Key Administration procedure duties**

These reflect the key processes undertaken by the Pension Team and include those indicators that are already being reported to Committee. Additional KPIS have been added for Transfer Out, Processes associated with death of a member and Divorce settlements.

Procedure	Proposed target per Administration Strategy	Previous Target	Statutory requirement
Letter detailing transfer in quote	90% Within 10 working days of receipt of all required information	92% Within 10 working days of receipt of all required information	2 months
Letter detailing transfer out quote	90% Within 10 working days of receipt of all necessary information	Not currently measured	2 months
Process and pay a refund	100% Within 10 working days of receipt of all necessary information	98% Within 5 working days of receipt of all necessary information	2 months
Process new retirement benefits following receipt of options.	95% 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	95% 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	2 months
Make payment of the death grant	90% Within 7 working days of receiving the required information	Not currently measured	2 months
Divorce settlement letter	90% Within 10 working days of receipt of all necessary information	Not currently measured	3 months
Send notification of joining LGPS to scheme member	100% Within 30 days of receipt of correct	80% Within 20 days of receipt	2 months

	notification from a scheme employer	of correct notification from a scheme employer	
Provide an answer or acknowledgement to scheme members/scheme employers/personal representatives/dependents and other authorised persons	90% Within 10 days of the receipt of the enquiry)	100% Within 30 days of the receipt of the enquiry	N/A

**Table 2: Key Administration statutory duties**

Procedure	Target Completion	Statutory requirement
Annual Benefit Statements	Issued by 31 August	Issued by 31 August
Pensions Savings Statements	Issued by 6 October	Issued by 6 October
Annual Increase Notification to Pensioners	Issued by 30 <sup>th</sup> April	Issued by 30 <sup>th</sup> April
TPR Annual return completed	By Expected Date	By Expected Date

**Table 3 : Scheme Employer Performance**

Procedure	Fife target
Remit employer and employee contributions to the Fund	By 22 <sup>nd</sup> of the month following deduction of if made electronically or 19 <sup>th</sup> if paid by cheque
Retirement notification	Notifications must be included on the monthly data submission for the month that the member retired, or on an earlier monthly return.
Annual Employer Survey	

**Table 4: Procedures not included in Administration Strategy**

Procedure	Proposed target	Previous target
Ill Health Estimates	90% within 15 working days	97% within 12 working days
Redundancy Estimates	97% within 12 working days	97% within 12 working days