Pensions Committee

Committee Room 2, Floor 5, Fife House, North Street, Glenrothes / Blended Meeting

Thursday, 28 March 2024 - 10.00 a.m.

AGENDA

ITEMS LIKELY TO BE CONSIDERED IN PRIVATE

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

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

21 March, 2024

If telephoning, please ask for:
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Agendas and papers for all Committee meetings can be accessed on www.fife.gov.uk/committees

BLENDED 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.

THE FIFE COUNCIL - PENSIONS COMMITTEE – BLENDED MEETING

Committee Room 2, Floor 5, Fife House, North Street, Glenrothes

14 December 2023 **10.00 am – 12.40 pm**

PRESENT: **Committee** - Councillors David Dempsey (Convener), David Alexander, Naz Anis-Miah, Colin Davidson, Jane Ann Liston, Sarah Neal, Nicola Patrick, Gordon Pryde and Jonny Tepp.

Fife Pension Board – Councillors Tom Adams and Lynn Ballantyne-Wardlaw, Robert Graham (Chairperson), Gail Dunn, Ross Hugh, Thomas Templeman, Colin Paterson and Vicki Wyse.

ATTENDING: Elaine Muir, Head of Finance; Laura Robertson, Finance Operations Manager; Pamela Redpath, Service Manager - Audit and Risk Management Services; John Mackie, Team Manager - Transactions Team; Karen Balfour, Lead Officer - Banking and Investment; Anne Bence, Accountant; Operations Pensions; Helena Couperwhite, Manager - Committee Services and Wendy MacGregor, Committee Officer, Committee Services, Legal and Democratic Services.

ALSO ATTENDING: Robert Bilton and Grace Flanagan, Actuary, Hymans Robertson LLP; Bruce Miller and Emmanuel Bocquet, Lothian Pension Fund; Karen Jones, Azets (external Auditor) and Clare Scott, Independent Professional Observer.

80. DECLARATIONS OF INTEREST

Vicki Wyse, Fife Pension Board made a transparency statement relating to Para 89 – Fife Pension Fund - Actuarial Valuation 31 March 2023 - Draft Funding Strategy - as during the consultation period she would be representing her employer in the negotiation and discussion process regarding employer contribution rates.

Clare Scott, Independent Professional Observer reminded employer representatives on Fife Pensions Board and elected members on the Pensions committee, the principles of the Funding Strategy Statement would set the pensions contributions that Fife Council would be paid and their focus during the meeting would be to look after the interests of the Fife Pensions Fund.

81. CHANGE TO MEMBERSHIP OF THE COMMITTEE AND FIFE PENSION BOARD

The Convener, on behalf of the committee, noted the update to the membership of both this committee and Fife Pension Board and welcomed Councillor Naz Anis-Miah and Thomas Templeman to their first meeting. Appreciation was extended to Councillor Lynn Mowatt, previous committee member and Ian Dawson previous member of Fife Pension Board, for their effort and commitment to the committee during their time in post.

82. MINUTE

(a) The committee considered the minute of the meeting of the Pensions committee on 28 September 2023.

Decision

The committee agreed to approve the minute.

(b) The committee considered the minute of the meeting of the Fife Pension Board on 28 September 2023.

Decision

The committee noted:-

(1) the contents of the minute;

(2) that Councillor Lynne Ballantyne-Wardlaw (employer representative) had been appointed as Chairperson of Fife Pensions Board; and

(3) that Robert Graham (employee representative) and Vicki Wyse (admitted body representative) had been appointed to the position of Joint Secretaries on Fife Pensions Board.

83. PENSION FUND BUDGETARY CONTROL

The committee considered a report from the Head of Finance providing details of the projected outturn of the Pension Fund for 2023-24.

Decision

The committee noted:-

(1) the projected outturn for 2023-24; and

(2) that further reports in relation to the financial position of the Fund would be brought forward on a bi-annual basis.

84. FIFE PENSION FUND - BUSINESS PLAN UPDATE TO 30 SEPTEMBER 2023

The committee considered a report by the Head of Finance providing an update on the activities undertaken by the wider pension team during the second quarter of 2023-24. The report was organised into 3 sections and included updates on the development activities identified in the Business Plan and administration activity undertaken. The report concluded with more in-depth consideration of the performance of the Pensions Administration team and provided details of the agreed key performance indicators.

Decision

The committee:-

(1) acknowledged the progress made on the key activities identified in the Business Plan 2023-24;

(2) noted the range of additional activities carried out by the team over the last quarter; and

(3) noted the level of quarterly performance relative to the target and to the same quarter of the previous year.

85. FIFE PENSION BOARD NOMINATIONS AND APPOINTMENTS PROCESS AND CONFLICT OF INTEREST GUIDANCE

The committee considered a report by the Executive Director of Finance and Corporate Services seeking approval of the Pension Board Nominations and Appointments process and associated Conflicts of Interest Guidance.

Decision

The committee agreed to approve the Pension Board Nominations and Appointments process and associated Conflicts of Interest Guidance, set out in the Appendix 1 to the report, with the condition that the wording at the beginning of the second paragraph on page 32 of the report be amended to read 'Trade unions may withdraw and replace their nominated representatives from time to time by giving reasonable notice to the Scheme manager'.

86. PENSIONS COMMITTEE WORKPLAN

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

Decision

The committee noted the contents of the report and scheduled work programme.

87. RISK MANAGEMENT UPDATE

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

Decision

The Committee noted:-

(1) the contents of the report; and

(2) that the risks were reviewed on a regular basis and that reports would be brought forward on a quarterly basis.

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

Prior to consideration of the following report, the Convener advised of the retirement of Bruce Miller, Lothian Pension Fund and wished Bruce well for his future, his successor Emmanuel Bocquet was welcomed to the meeting.

88. FIFE PENSION FUND INVESTMENT UPDATE

The committee considered a report by the Head of Finance providing an overview of the Fund's investments at 30 September 2023. A verbal update of manager monitoring activity and of investment strategy was provided at the meeting.

Decision

The committee noted:-

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

(2) the value of the Fund's assets on 30 September 2023 after returning -0.4% over the quarter;

(3) that the Fund's strategic policy group allocations were within the permitted allocation ranges; and

(4) that longer term absolute returns were strong and relative returns were above the liability benchmark

Following consideration of this item, the committee adjourned at 11.25 am and reconvened at 11.35 am.

89. FIFE PENSION FUND – ACTUARIAL VALUATION 31 MARCH 2023 – DRAFT FUNDING STRATEGY STATEMENT

The committee considered a report by the Head of Finance outlining progress in relation to the triennial actuarial valuation and providing members with output from the current stage, the draft Funding Strategy Statement. The report provided details of the Draft Funding Strategy Statement which had been prepared alongside the 2023 Actuarial Valuation. The statement provided details on funding issues, contribution rates for individual employers, funding strategy and investment strategy and statutory reporting arrangements.

Decision

The committee:-

(1) considered and acknowledged the content of the draft Funding Strategy Statement; and

(2) agreed to endorse the draft Funding Strategy Statement which would be issued as part of the consultation process to each employer within the Fife Pension Fund.

THE FIFE COUNCIL - FIFE PENSION BOARD

14 December 2023 **12.50 pm – 2.15 pm**

PRESENT:	Councillors Tom Adams and Lynn Ballantyne-Wardlaw, Gail Dunn, Robert Graham, Ross Hugh, Colin Paterson and Thomas Templeman.
ATTENDING:	Helena Couperwhite, Manager - Committee Services and Wendy MacGregor, Committee Officer, Committee Services, Legal and Democratic Services.
ALSO ATTENDING:	Clare Scott, Independent Professional Observer.
APOLOGIES FOR ABSENCE:	Vicki Wyse.

22. DECLARATIONS/CONFLICTS OF INTEREST

Vicki Wyse, Fife Pension Board made a transparency statement relating to Item 11 on the Pensions Committee agenda – Fife Pension Fund - Actuarial Valuation 31 March 2023 - Draft Funding Strategy - as during the consultation period she would be representing her employer in the negotiation and discussion process regarding employer contribution rates.

Clare Scott, Independent Professional Observer reminded employer representatives on Fife Pensions Board the principles of the Funding Strategy Statement would set the pensions contributions that Fife Council would be paid and their focus during the meeting would be to look after the interests of the Fife Pensions Fund.

23. FOR NOTING - CHANGE TO MEMBERSHIP OF THE PENSIONS COMMITTEE AND FIFE PENSIONS BOARD

Robert Graham welcomed Thomas Templeman to his first meeting of Fife Pension Board and thanked Ian Dawson for his time and contribution to the Fife Pension Board during his time in post.

The Board also noted the change of membership on the Pensions Committee, Councillor Naz Anis-Miah replacing Councillor Lynn Mowatt.

Decision

The Board noted that Thomas Templeman had completed his introductory training and that the Pensions Toolkit mandatory training modules would be completed in due course.

24. APPOINTMENT OF CHAIRPERSON, FIFE PENSION BOARD

The Fife Pension Board noted that Councillor Lynn Ballantyne-Wardlaw had accepted the position of Chairperson on the Board and would take over the role from Robert Graham in January 2024. Robert Graham and Vicki Wyse were appointed as Joint Secretaries on the Board.

Decision

The Board noted:-

(1) the new appointments of Chair and Joint Secretaries; and

(2) a request from Councillor Ballantyne-Wardlaw for support from Board members and Committee Services to undertake the role of Chairperson until she was familiar with the requirements of the position.

25. FIFE PENSION BOARD MINUTE - 28 SEPTEMBER 2023

The Fife Pension Board considered the minute of the meeting of the Board on 28 September 2023, at a pre-meeting, held prior to the Pensions Committee meeting on 14 December 2023.

The Fife Pension Board minute was also considered by the Pensions Committee at the Pensions Committee meeting on 14 December 2023.

Decision

The Board:-

(1) acknowledged that the minute of the meeting of the Fife Pension Board on 28 September 2023 had been approved by the Board at the pre-meeting held prior to the Pensions Committee meeting on 14 December 2023;

(2) acknowledged the Pensions Committee noted the contents of the Fife Pension Board minute from the meeting on 28 September 2023 and no further comments had been raised by the Committee;

(3) agreed that a pre-meeting of the Fife Pension Board would be required with administrative support from Committee Services. The pre-meeting would replace the meeting held by the Board directly before the Pensions Committee meeting. It is likely the pre-meeting would be required to be held the day before the Pensions Committee meeting. The Committee Officer would investigate the requirements for the pre-meeting and liaise with Fife Pension Board members;

(4) agreed for future meetings of the Fife Pension Board (pre-meeting and post meeting), the Committee Officer would liaise with the Chair of the Board to agree the agenda items for discussion at each meeting; and

(5) agreed going forward, the agenda pack and minutes of the Fife Pension Board meetings would be issued following the same timescales as the Pensions Committee, for consistency.

26. REVIEW OF COMMITTEE DECISIONS/COMMENTS ON REPORTS

The Fife Pension Board considered whether a review of any decisions would be required on reports on the Pensions Committee agenda. A discussion followed and the comments below were raised:-

(1) **Fife Pension Fund - Business Plan Update to 30 September** –

(a) Robert Graham emphasised the importance of completing the mandatory training modules and the requirement to attend training events that would meet the requirement of 14 hours of training per annum.

(b) Robert Graham advised it was mandatory to complete the Pensions Toolkit training modules and it would be beneficial for Board members to complete these as a refresher at regular intervals.

(c) Councillor Tom Adams requested confirmation of events which would meet the 14 hours per annum training requirement.

(d) Clare Scott suggested that training records were circulated to members more frequently so they could check the training they had attended had been recorded.

(e) Comments were raised that the Union Representatives often had issues leaving their full-time employment role to attend Pensions Committee meetings and training events as this was an additional duty and not related to their employment. Robert Graham advised if any members were experiencing difficulties to raise this with the Chair of the Pension Board for further consideration.

(2) **Fife Pension Board Nominations and Appointments Process and Conflict of Interest Guidance** - The Board were in agreement with the terms of the Process and Guidance once the wording had been amended on Page 32 of the Pensions Committee agenda pack, second paragraph, to remove the wording 'and employers', to read 'Trade Unions may withdraw their nominated representatives from time to time.....'

(3) **Confidential Report - Fife Pensions Fund - Actuarial Valuation at 31 March 2023 - Draft Funding Strategy –**

(a) The Board noted concerns relating to the transparency of the information provided to the Committee regarding the timing of the reduction of contribution rates. Instead of the reduction being introduced over 3 years at 1% each year, the full 3% reduction would be applied in year one. This was not documented in the Draft Funding Strategy Statement, but introduced at the meeting meaning the Committee and Board did not have time to fully consider the implications prior to making a decision on the report.

(b) The Board agreed that the new chairperson of the Board, Councillor Lynn Ballantyne-Wardlaw would write to the Head of Finance to advise of the concerns raised by the Board.

(4) **Review of Decisions** - The Board agreed that further training would be required for Board members to clarify the circumstances under which they can request that the Pensions Committee reviews a decision.

27. FIFE PENSIONS BOARD - FORWARD WORK PROGRAMME

The Fife Pension Board considered the Forward Work Programme.

Decision

The Board agreed:-

(1) to include the Scheme Advisory Bulletin as a standing item for each meeting of the Pension Board, which would be added to the Forward Work Programme; and

(2) the pre-meeting and post meeting of the Fife Pension Board would require separate forward work programmes. The Committee Officer, in liaison with the Chair of the Board, would update the forward work programmes for each meeting as required.

28 March 2024

Agenda Item No. 5

Fife Pension Fund – Business Plan update to 31st December 2023

Report by: Elaine Muir, Head of Finance

Wards Affected: N/A

Purpose

To provide the Committee with an update on the activities undertaken by the wider pension team during the third quarter of 2023-24. The report is organised into 3 sections and provides an update on the development activities identified in the Business Plan, followed by an update on administration activity undertaken. The report concludes with more in-depth consideration of the performance of the Pensions Administration team by providing details of the agreed key performance indicators.

Recommendation(s)

The Committee is asked to:

(1) consider and comment on the progress of key Business Plan activities;

(2) note the range of additional activities carried out by the team over the last quarter; and

(3) consider the level of quarterly performance relative to the target and to the same quarter of the previous year.

Resource Implications

The business plan for the Fund is delivered by the wider pensions team and managed by the Head of Finance. It is important to ensure that the team is adequately resourced to deliver the Service and can respond to developments in the future. Managing and monitoring team performance is important in providing an efficient service to both employers and members and can highlight areas for improvement. Workforce planning arrangements are also being enhanced which incorporate a more structured approach to learning and development and succession planning.

The costs of the team are met by the Pension Fund.

Legal & Risk Implications

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

Impact Assessment

Not relevant.

Consultation

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

1.1 The Fife Pension Fund – Business Plan 2023-24 was approved by this Committee in March 2023. The business plan contained details of development activities that were planned for 2023-24, as well as a high-level summary of the activities to be undertaken each quarter.

1.2 Key Performance Indicators (KPIs) relating to the pension administration function have been agreed by Committee and are collated within Altair, the pension administration software. KPIs are reported quarterly to the management team and to Committee.

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

2.0 Business Plan Activity

2.1 The purpose of this section of the report is to provide an update on the progress of the business plan in the second quarter of the financial year.

2.2 ***Development Activities***

The areas of development identified were as follows:

Procurement - Custody Services

Progress to date

This is intended to be managed as a joint procurement exercise for custody services with our partner funds and dialogue is ongoing. It is expected that the procurement process will commence in June/July 2024. Fife's contract is open ended which provides a degree of flexibility to ensure that Fife can gain the benefits of working collaboratively on a joint Procurement exercise to ensure the best value for money for all three partner funds.

Actuarial Valuation

Progress to date

The Fund and the actuary have completed all necessary steps throughout the Valuation process and the results have been discussed with Fund officers. The Final Valuation report is subject to a separate report on this agenda.

During the last quarter a draft copy of the Funding Strategy Statement was issued to all employers in the Fund for consultation. Schedules detailing proposed new employer contribution rates for the forthcoming 3 financial years were also issued and employers had until the end of January 2024 to provide comments, queries or discuss any aspects of the results.

The Funding Strategy Statement has now been updated reflecting comments from the Committee and Board. The final version is subject to a separate report on this agenda.

McCloud Judgement

Progress to date

The information required for the McCloud project has been updated to the Altair system for 12 employers in preparation for the underpin remedy.

Progress is being made on the 8 employer payrolls managed by Fife Council's payroll team. Of the 8, 6 payrolls are categorised as Bureau payrolls, and the part time hours required for the McCloud rectification period have been received for all of these payrolls. Testing the uploading of this information in our test Altair system and working through the errors is currently ongoing. Once this is complete, we will proceed to uploading the information to our live Altair system.

Due to the size of the Fife Council payroll, and the number of members involved who have multiple posts, and the change of payroll systems mid-way through the rectification period, sourcing the data for members in scope for McCloud is complex and time-consuming. However, we remain in dialogue with the Council payroll team and have agreed that the information will be provided in accordance with our prioritisation requirements. We are receiving the Fife Council payroll information in categories, broken down by status of member i.e. Deaths, Pensioners/Dependent's, Leavers, Actives. We have been advised that we will receive the information for the first of these categories by the end of March and we can then proceed to uploading this to our Test system.

Due to the sheer size of the employer and change of payroll system, we expect there to be a number of data mismatches. However, there is no doubt that it will be a time-consuming exercise to sort and correct mismatches before pension records can be updated therefore it is likely that additional resources will be required to manage this exercise. We are currently in the process of recruitment.

Alongside the collation of data, the team continue to meet with Heywoods consultants that specialise in updating Altair with McCloud information. Further participation in working groups is also taking place.

Pensions Dashboards

Progress to date

The Department of Work and Pensions (DWP) has laid the Pensions Dashboards (Amendment) Regulations 2023. A revised staging timeline means that all Schemes in scope will need to be connected by 31 October 2026. The Pensions Dashboard Programme (PDP) has confirmed the staging date for public service pension schemes is 30 September 2025.

A draft LGPS Pensions Dashboard connection guide has been published by the Local Government Association. This guidance will be used to development a project plan and identify resource requirements.

Work has started with our software suppliers to cleanse data and undertake tracing exercises in preparation for dashboards implementation. Further, training sessions have been undertaken with the team and the Committee and Board. Progress will continue to be reported in the coming months and years.

Taskforce for Climate Related Financial Disclosures (TCFD)

Progress to date

Continued implementation of SRIP actions including sourcing climate related information during quarterly performance calls with fund managers.

KPI review

Progress to date

The approved additional KPIs and revised targets are reflected in this report. We are continuing to search for more effective ways to collate the KPI information and on developing improvements in the presentation of the KPIs. Development work is continuing on the presentation and process for collating KPIs. Testing of the use of Power BI dashboards is currently taking place.

Investment Strategy

Progress to date

Throughout the year, advisers are working in tandem on both the valuation and the investment strategy review with the training for members of the Committee and Pensions Board held on both 15th September 2023 and 6th February 2024. The materials and recording of the session were made available to members who were unable to attend on the day to ensure that every individual had the opportunity t access the training at a time that suited them.

Officers have considered the recommendations in respect of the investment strategy and the strategy is subject to a separate report on this agenda.

Continuous Improvement of Processes

Progress to date

A number of areas of continuous improvement to existing processes were also identified in the Business Plan, these are at varying stages.

- *Roll out of i-connect to Employers – complete with the exception of three employers each with less than 10 members*
- *Roll out of Members Self-Serve (MSS) to all pensioner members – not complete as focus has been on promotion to active members. This will be carried forward to next year's business plan*
- *Transfer-in criteria – work is ongoing, researching and consulting on the approach to transfers-in, with this expected to be complete by the end of May 2024. A briefing note documenting the current position and recommendations will be produced for discussion with the Head of Finance.*
- *Transfer-out processes- work is ongoing, which includes reviewing the relevant guidance and regulations as well as consulting with legal advisers. Process maps and checklists have been developed and are currently being tested.*
- *Decision making process regarding death grants – this is complete and now documented. Predominately decisions are made based on the nominations, however, in situations where no nominations are available, legal advice is sought and the decision making is escalated as appropriate.*
- *Review of Governance Documentation – ongoing and reflected in the action plan on Corporate Governance. Two policies remain outstanding, Breaches of the Law and Internal Dispute Resolution Procedure. These reviews are scheduled to be completed by the end of May 2024.*

2.3 The Pensions Regulator General Code of Practice

2.3.1 Legislation in respect of the revised General Code of Practice was laid in parliament on 10th January.

2.3.2 The general code brings 10 of the 15 previous codes into one place and covers all the governance, administration conduct and practices of an LGPS fund. The code is categorised into 5 areas:

- The Governing Body
- Funding and Investment
- Communications and disclosure
- Administration
- Reporting to TPR

2.3.3 Within the 5 areas there are 51 specific modules that apply to running a pension scheme. Not all modules are directly applicable to the LGPS, however, there are some that contain elements of best practice which will also be considered.

2.3.4 There are two new modules on Cyber controls and Pension scams.

2.3.5 In preparation for the publication of the general code, work has been ongoing on compliance with the existing code. An action plan to address the partial compliance with the previous Pension Regulators Compliance Checklist was developed and tasks allocated to individuals to ensure there is a move from partial to full compliance.

2.3.6 Building on this work an assessment of the requirements of the new code and a gap analysis will need to be undertaken. The current action plan will be updated to address the actions required to achieve full compliance with the new code. We are currently considering the tools available to carry out the assessment.

2.3.7 The code is expected to be effective from 27th March 2024, with funds expected to carry out the assessment, gap analysis and prepare an action plan within a 6-to-9-month period. This will be taken forwarded by the Pensions Governance Group and updates provided to the Committee.

2.4 Committee and Board Training Attendance

2.4.1 An integral part of the governance arrangements and compliance with the code of practice is the adoption of the fund's approved training policy. The policy requires all members of both the committee and board to undertake 14 hours of training per annum.

2.4.2 Members of the Committee and Board are asked to submit details of attendance to Legal and Democratic Services. Attendance at events for 2023/24 year to date is summarised in the following tables:

Pension Committee Attendance at Training

Training	Duration	Cllr. Dempsey (convener)	Cllr Pryde (vice convener)	Cllr Davidson	Cllr Dillion (resigned June 23)	Cllr Liston (from June 23)	Cllr Alexander	Cllr Mowatt (Resigned Oct 23)	Cllr Neal	Cllr Patrick	Cllr Tepp (resigned Feb 24)	Cllr Anis-Miah(joined Oct 23)	Cllr Calder (joined Feb 24)
Induction Training	2 hours	LY	LY		LY	✓	LY	LY	LY	LY	LY	✓	✓
PF Training 29th May	3 hours		✓		✓	N/A	✓	✓	✓		✓	N/A	N/A
PLSA Conference 8th and 9th June	15 hours	✓									✓	N/A	N/A
SAB Training July 23	3 hours		✓									N/A	N/A
PF Training 28th August	2 hours	✓	✓	✓	N/A			✓		P		N/A	N/A
Investment Strategy Training	3 hours	✓	✓		N/A		✓		✓		✓	N/A	N/A
LGPS Cost Transparency Training	2 hours				N/A			✓			✓	N/A	N/A
LGC Seminar 19/20 October	8 hours	✓			N/A			N/A				N/A	N/A
PF Training 23rd November	3 hours	✓	P		N/A	✓	✓	N/A					N/A
Investment Strategy Training (SAA)	3 hours	✓	✓	✓	N/A	✓		N/A		✓	N/A		N/A
PLSA Conference 27, 28 and 29 Feb	15 hours	✓		✓	N/A			N/A			N/A		
PF Training 04 March	3 hours	✓	✓		N/A	✓	✓	N/A			N/A		✓
TPR Toolkit	5 hours	LY	LY			✓	✓	LY	✓		LY		
TPR Scams	1 hour	LY	✓			✓	✓						
Total Hours to date		52	19	20	3	17	17	7	11	4	23	2	5

Pension Board Attendance at Training		Cllr. Adams	Cllr Ballantyne-Wardlaw	Ian Dawson (resigned Nov 23)	Gail Dunn	Robert Graham	Ross Hugh	Colin Paterson	Vicki Wyse	Thomas Templeman (from Nov 23)
Training										
Induction Training	2 hours	LY	LY	LY	LY	LY	LY		LY	✓
PF Training 29th May	3 hours	✓	✓	✓	✓	✓	✓			N/A
PLSA Conference 8th and 9th June	15 hours	✓								N/A
PF Training 28th August	2 hours	✓	✓		✓					N/A
Investment Strategy Training	3 hours	✓			✓				✓	N/A
LGPS Cost Transparency Training	2 hours		✓			✓		✓		N/A
LGC Seminar 19/20 October										N/A
PF Training 23rd November	3 hours	✓	✓	N/A	✓		✓		✓	✓
Unison Training	4 hours			N/A				✓		
Investment Strategy Training (SAA)	3 hours	✓	✓	N/A	✓		✓	✓	✓	✓
PF Board Training Governance	1.25 hours	✓	✓	N/A	✓	✓		✓	✓	✓
PLSA Conference 27, 28 and 29 Feb	15 hours	✓		N/A						
PF Training 04 March	3 hours			N/A						
TPR Toolkit	5 hours	✓	LY		✓	LY		LY	✓	✓
TPR Scams	1 hour	✓	✓		✓	✓		✓	✓	✓
Total Hours to date		51.25	14.25	3	21.25	6.25	9	10.25	16.25	14.25

Key	
Training Completed 2023/24	✓
Training Partially attended	P
Training Completed 2022/23	LY
Not available due to start/leaving dates of member	N/A

2.4.3 Training available in the quarter included:

- Investment Strategy
- PLSA Conference
- Valuation
- tPR General Code of Practice
- Cessations
- Pension Board Governance

2.4.4 Members are asked to review this for accuracy and provide an update as this will be reported in the Annual Governance statement.

3.0 Business as Usual Activity

3.1 In addition to the development activity the team also continued with activities as follows:

3.2 **Business as usual**

3.2.1 In the quarter, and prior to the statutory deadline date of 6th October, the team completed the outstanding queries from the Annual Allowance process. All members who exceeded the Annual Allowance threshold of £40,000.00 were issued with their Pension Savings Statement before the deadline.

3.2.2 Work is on-going to update existing Administration procedures as well as working on, and implementing, new procedures to ensure all administration tasks are considered. In-house training continues to ensure the procedures are adequate, pertinent, and easy to follow. The procedures are catalogued and saved in the team's shared folder in the Microsoft Teams site for access by all team members.

3.2.3 Following our efforts to encourage members to register for Member Self Service, we continue to receive a high number of emails and telephone calls from members either asking for assistance to register for MSS, or querying their MSS accounts once they are registered.

3.3 **Customer Contact**

3.3.1 The team continues to spend time dealing with queries from members. Contact is made using both email and telephony channels.

The team are working with the Fife Council Business Management Innovation Unit (BMIU) to analyse the nature of member enquiries, to determine if there can be improvements to the website and other communications that will streamline processes.

4.0 Key Performance Indicators

4.1 KPI 1 - Key Processes - Quarter 3

4.1.1 Performance is measured on a quarterly basis to provide a picture of recent performance.

4.1.2 KPI information for the quarter 1st October 2023 to 31st December 2023, and comparator information for the preceding 4 quarters, is detailed at Appendix A.

4.1.3 The performance for quarter three 2023/24, is based on the KPI levels approved at the June committee meeting.

4.1.4 The Team continues to meet KPI targets for new members and correspondence.

4.1.5 The processing of refunds, although still slightly below our target level, shows an improvement on the same quarter for 2022/23. In this quarter there was a total of 285 refund tasks completed, and of that number 274 cases were processed on time. Of the remaining 11 cases, 3 were terminated after the task's due date as the refund process was cancelled and the 8 others went back to re-calculation as there were errors in the paperwork.

4.1.6 The KPI performance level for Ill Health retiral estimates is still significantly below target. In this quarter there were 20 cases completed. Of that number, three cases were significantly over target (one 18 days over, one 20 days over and one 53 days over). There were different reasons for this ranging from incomplete paperwork from the employer, change to leaving date mid-process and a delay from one employer notifying us of the ill-health tier to apply. Of the other 16 cases, 14 were processed by the team under the target time however we required employer authorisation to release the estimates before the task could be finalised and this caused the task to go over target. To reflect that the Team processes are completed we've now amended our task set up in Altair. The remaining 2 cases were over target as there was a delay in the checking process.

4.1.7 There were 7 redundancy estimates processed in this quarter. Of the 7, six were within the target time. The one case that ran over was the result of miscommunication between the Fund and the employer and the release of the statement.

4.1.8 Retirals, whilst showing a slight improvement on the previous quarter, are again under target. However, following investigation, it was discovered that some tasks are remaining open whilst awaiting member responses to pension options and, based on the time members take to return the required forms, the tasks usually run over target. Like the ill health task, we have amended Altair to capture that the team processes are complete. An example of this is one task that was showing as 293 days over target as a result of the paperwork not being returned by the member.

4.2.0 We are continuing to work through our backlog of non-club Transfers In and are carrying out in-house training to aid this. For club transfers, where the member is not impacted by McCloud rectification, the transfer is processed. We are waiting on software changes to Altair to allow us to process cases impacted by McCloud.

4.2.1 We can now work on transfers out that are not in the McCloud scope however those members in the McCloud scope cannot be progressed. Guidance from the Government Actuary Department (GAD) is expected to be available in March.

4.2.2 The target level for Death processing, whilst being slightly below target, is no cause for concern and is consistent with previous quarters.

4.2.3 The Divorce level is below target, however again, GAD factors are still to be provided before some of the divorce calculations where the member is in scope for McCloud rectification can be performed.

4.3 KPI 2 - Total Days Elapsed

4.3.1 This graph details the average amount of days it takes to complete each process reported on in the Key Processes.

4.3.2 The days elapsed being greater than target for ill health estimates is related to the circumstances outlined above, as is the reason for transfers/divorce.

4.4 KPI 3 – Casework Ongoing

4.4.1 This table provides a breakdown of the total caseload for each of the 10 key processes. The table illustrates the volume of KPI 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.

5.0 Conclusions

5.1 This report provides members with information on not only the KPIs being reported but also the wider range of functions and activities carried out by the wider Pension Team in the quarter to 31st December 2023.

5.2 Progress against the Fund's business plan has been positive, with areas of work being advanced throughout the quarter.

List of Appendices

Appendix A

KPI 1 – Key Processes

KPI 2 – Total Days Elapsed

KPI 3 – Casework Ongoing

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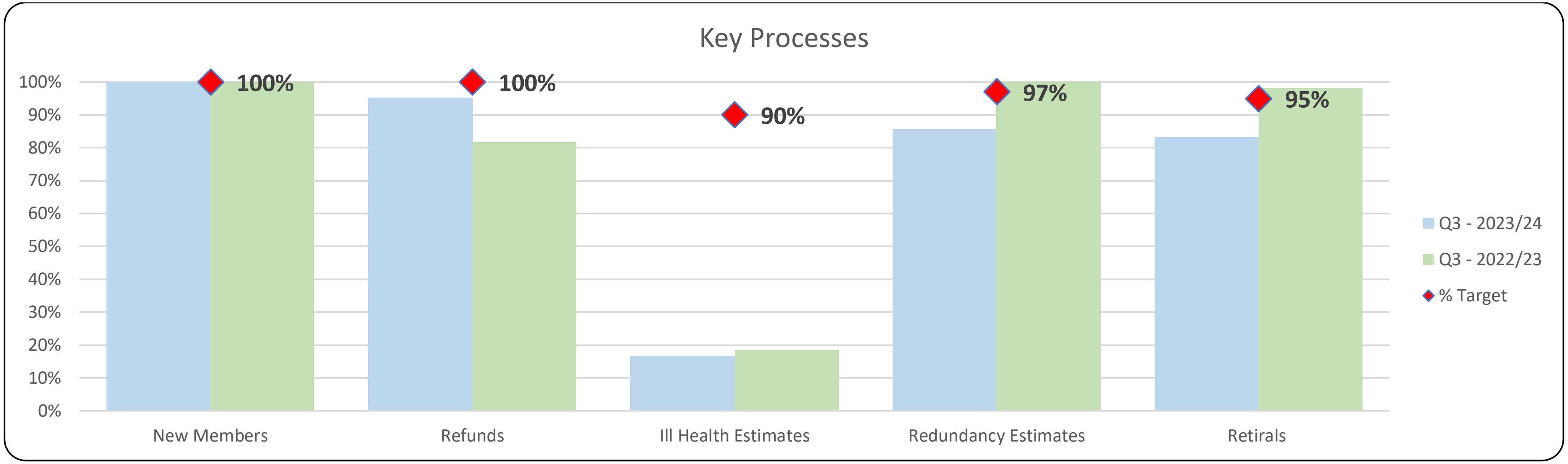
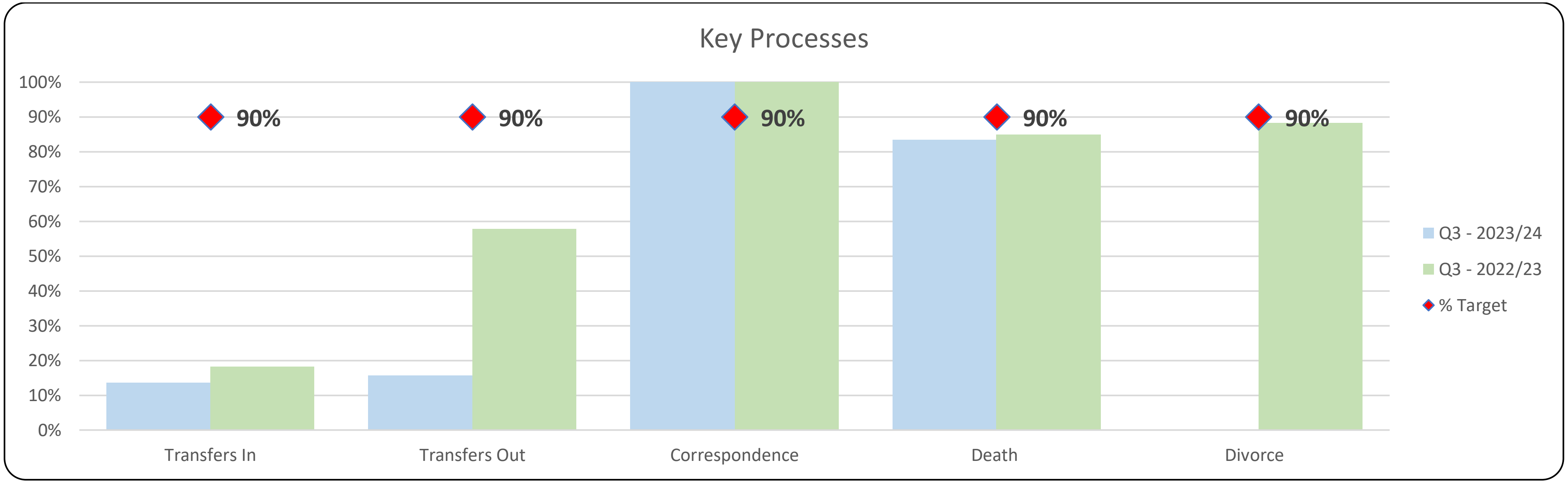
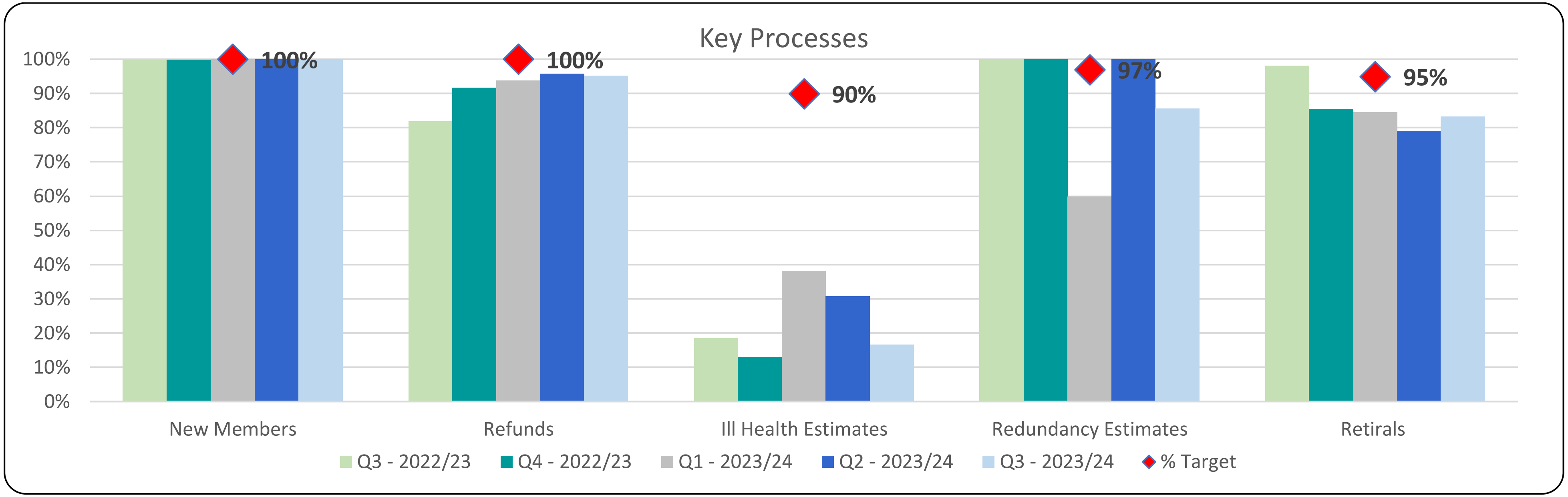
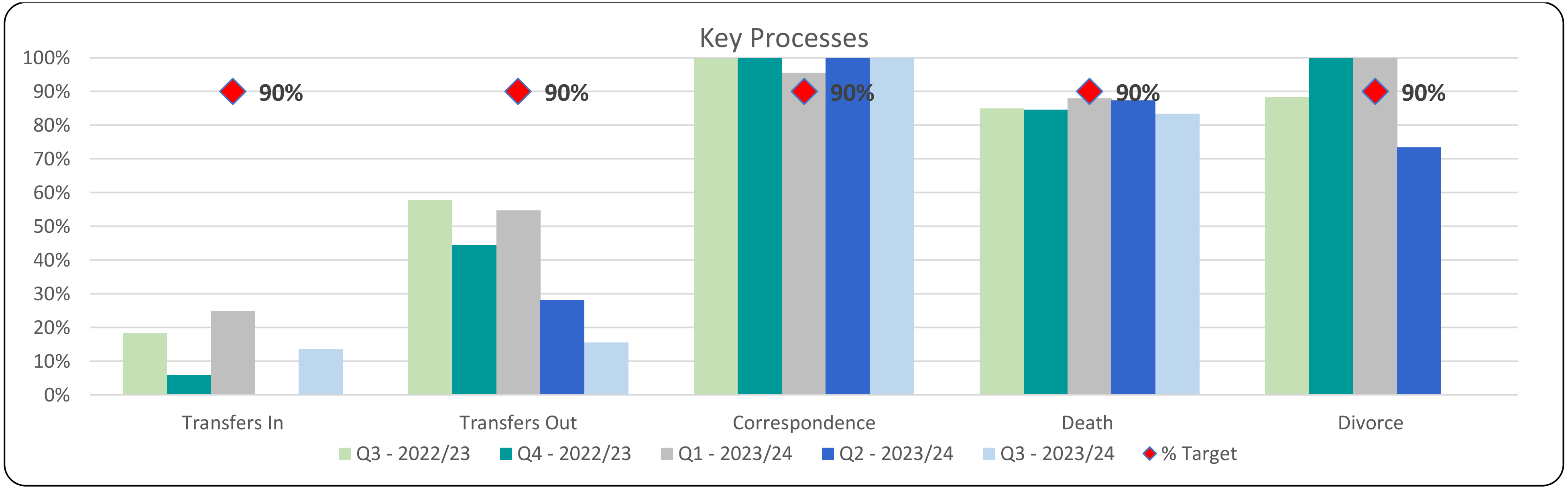
KPI 1: Key Processes





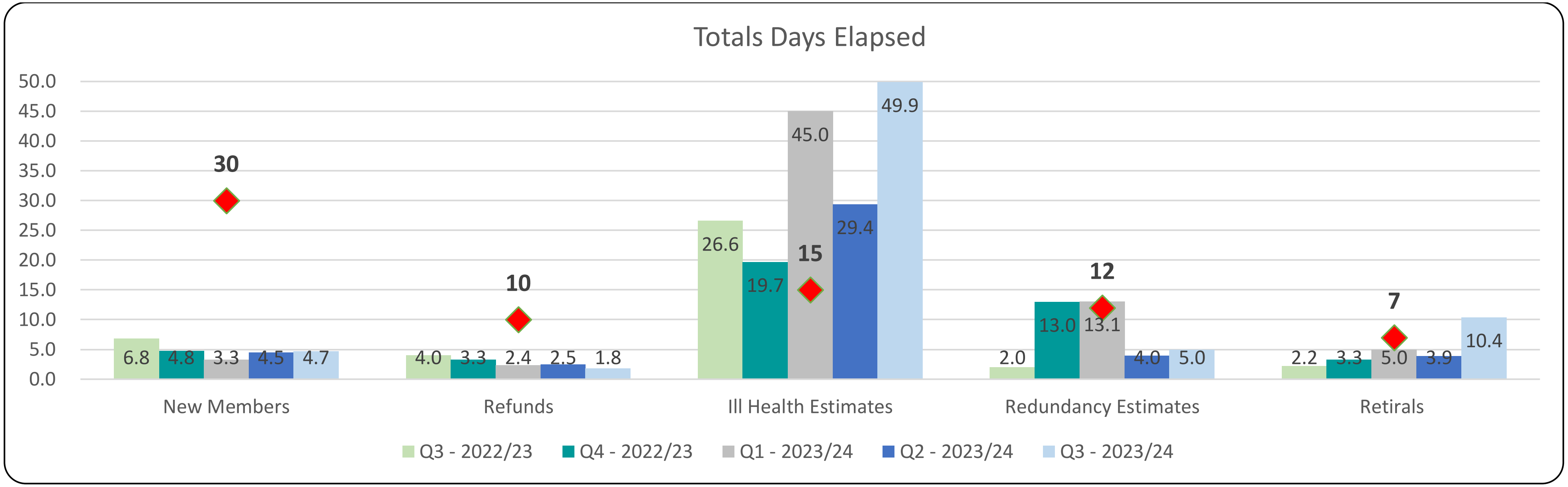


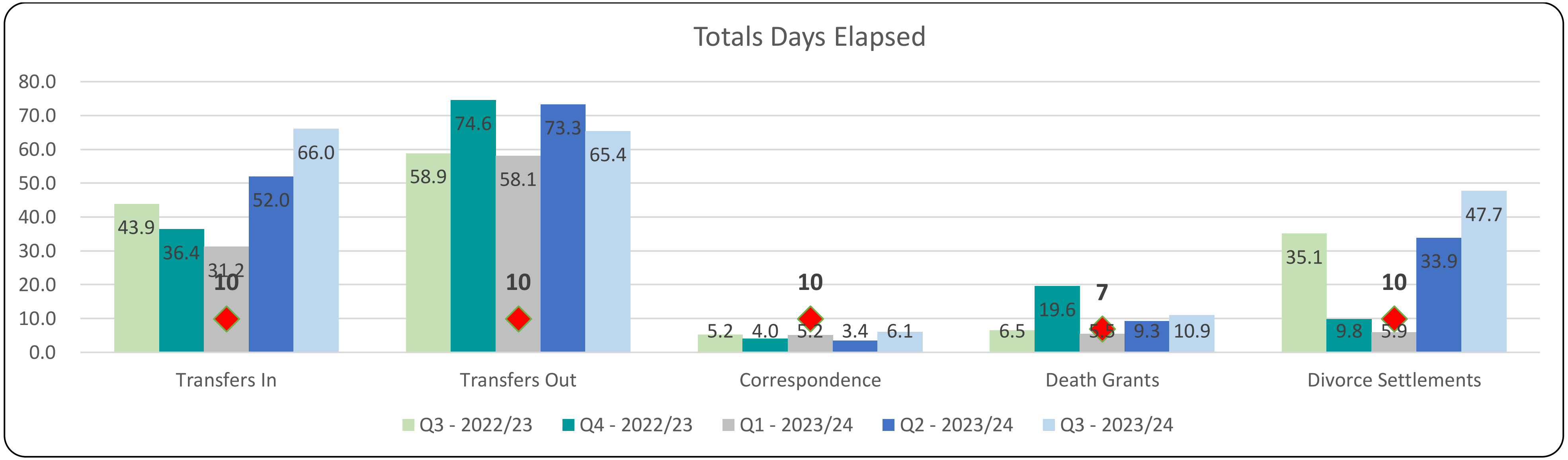
Key Processes
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
100%
100%
90%
97%
95%
New Members
Refunds
Ill Health Estimates
Redundancy Estimates
Retirals
Q3 - 2022/23
Q4 - 2022/23
Q1 - 2023/24
Q2 - 2023/24
Q3 - 2023/24
% Target



Key Processes
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
90%
90%
90%
90%
90%
Transfers In
Transfers Out
Correspondence
Death
Divorce
Q3 - 2022/23
Q4 - 2022/23
Q1 - 2023/24
Q2 - 2023/24
Q3 - 2023/24
% Target

KPI 2: Working Days Elapsed





KPI 3: Ongoing Casework

Ongoing Casework at End of Reporting Quarter	Q3 2022/23				Q4 2022/23				Q1 2023/24				Q2 2023/24				Q3 2023/24			
Key Process	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Completed	Received	Outstanding	Brought Forward	Completed	Received	Outstanding
New Members	79	664	720	23	23	562	584	1	1	657	629	29	29	844	830	15	15	584	611	42
Refunds	115	283	368	30	30	255	271	14	14	211	180	45	45	371	397	71	71	285	271	57
Ill Health Estimates	19	22	28	13	13	24	25	12	12	15	23	4	4	13	18	9	9	20	19	8
Redundancy Estimates	0	1	1	0	0	3	1	2	2	3	5	0	0	6	6	0	0	7	7	0
Retirals	219	218	175	262	262	231	197	293	293	245	216	322	322	238	235	319	319	242	202	279
Transfers In	28	12	12	28	28	28	23	33	33	28	6	55	55	2	33	86	84	25	37	96
Transfers Out	53	42	47	48	48	47	35	57	57	36	41	52	52	42	56	66	64	47	32	49
Correspondence	5	14	18	1	1	20	19	2	2	24	24	2	2	27	27	2	2	26	26	2
Death Grants	59	128	112	75	75	188	215	48	48	143	143	48	48	116	129	61	61	140	146	67
Divorce Settlements	8	13	18	3	3	19	18	4	4	13	6	11	11	19	17	9	9	10	13	12

28 March 2024

Agenda Item No. 6

Fife Pension Fund – Funding Strategy Statement

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The attached report provides members with the Funding Strategy Statement which has been prepared alongside the 2023 Actuarial Valuation. The statement provides details on funding issues, contribution rates for individual employers, funding strategy and investment strategy and statutory reporting arrangements.

Recommendation(s)

The committee is asked to:-

(1) note the updates made to the Funding Strategy Statement; and

(2) approve the Funding Strategy Statement.

Resource Implications

The cost of the valuation process is planned and was met from the Fife Pension Fund budget. Resources were allocated to the work involved in completing the valuation process over the last year.

Legal & Risk Implications

The Funding Statement Strategy has been prepared in accordance with LGPS regulations.

Impact Assessment

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

Consultation

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. The draft Funding Strategy Statement was shared with all employers during a period of consultation.

1.0 Background

1.1 There is a statutory requirement for the Fife Pension Fund to go through a valuation process. The valuation date is 31st March 2023, and the valuation will require approval by 31st March 2024. To achieve this timescale, planning and preparatory work commenced in the last quarter of 2022.

1.2 The Fund Officers have been working with Hymans Robertson, the fund actuary, to agree the valuation process and the timescales associated with each step in the process.

1.3 The timeline has previously been agreed and reporting to committee at various stages throughout the process has been more frequent during this valuation process and, importantly, aims to meet the statutory deadline of agreeing the valuation by 31st March 2024. Training on relevant stages of the process continues to be provided for Committee and Board members in advance of committee meetings, in line with the agreed training policy, with the training relating to the Funding Strategy Statement having taken place on 23rd November before the draft statement was reported to Committee on 14th December 2023.

1.4 Alongside the valuation, the existing funding strategy is reviewed and updated to ensure it remains appropriate considering any changes to individual employer circumstances or wider regulatory, political, economic and demographic factors. The funding strategy is formally laid out in the Funding Strategy Statement (“FSS”) which, under LGPS Regulations, all funds have a statutory obligation to produce.

1.5 The FSS is prepared in collaboration with the Administering Authority and forms an integral part of the framework within which the triennial valuation is carried out to set employers’ contributions. The FSS also outlines how the funding strategy fits in with the investment strategy.

2.0 Funding Strategy Statement

2.1 The current funding strategy was refreshed and reviewed as part of the 2020 valuation. During the 2023 valuation, the Fund’s Officers have met with Hymans Robertson to discuss and review the employer results which has informed the changes that are required to the funding strategy to account for developments since the last valuation.

2.2 The draft Funding Strategy Statement and covering report were presented to this Committee on 14th December 2023. The report outlined that the review has resulted in some material changes to the funding strategy including:

- Changes to reflect the strong surplus position of 151%
- Review of the structure and layout of FSS
- Improved accessibility and navigation for all stakeholders

2.3 The strategy is now organised into a core document with supporting appendices. The core document is designed to map the employers’ journey through the fund, provides key information and signposts stakeholders to relevant policies whilst complying with the relevant guidance.

2.4 Section 2 of the strategy outlines how employers' contributions are calculated taking account of the funding target i.e. the amount of money the fund is aiming to hold to meet the benefits earned to date, the time horizon or how long it will take to get there and likelihood or how sure we want to be that the employer will reach that target.

2.5 The strategy now includes policies which are stand-alone reference documents which are easier to use and keep up to date.

2.6 One such policy relates to Employers exiting the fund (appendix G of the FSS). It should be noted that this policy has been updated to include a risk-based cessation approach with the application of a "corridor" approach when determining the level of assets an employer should leave in the Fund.

2.7 This is a change in approach which has been adopted to reflect the uncertainty and volatility with funding LGPS pensions and introduce greater stability into cessation valuations and a degree of protection for the Fund, by better managing exit credits. This approach is also more reflective of what happens to assets after employers leave the fund. It will also provide a degree of certainty to employers who may choose to leave the fund by reducing volatility in their exit valuation.

2.8 The updated version of the draft FSS was issued to each employer for comment as part of a consultation exercise required under the LGPS Regulations. The consultation closed on 31 January 2024. There were no material objections or comments that altered the FSS. The draft version of the FSS can now be finalised and is attached as at appendix 1 for approval by the Committee.

2.9 Employers impacted by the change to the Contribution Stability Mechanism (CSM) were notified to advise of the changes and draw their attention to their participation. Flexibility within the CSM has been applied to achieve the stabilised 3% change over a differing time period i.e. 3% reduction brought forward to year one as opposed to 1% per annum. This has a negligible impact when compared with a 1% change per annum by 2027 with minimal change in the level of risk on the fund.

2.10 The attached version of the FSS has been updated to reflect the comments and feedback received from both the Committee and Board. Following an issue raised by the Pensions Board around transparency relating to the decision to advance the contribution stability mechanism, a fuller response was provided to give additional assurance around this decision and a summary of the response is attached at Appendix 2.

3.0 Conclusions

3.1 The Funding Statement Strategy for Fife Pension Fund has been reviewed alongside the 2023 Valuation.

3.2 The review resulted in changes to the format and layout of the FSS.

3.3 The Committee, Board and Employers were consulted on the content of the FSS.

List of Appendices

1. Fife Pension Fund Funding Statement Strategy March 2024
2. Summary of Correspondence sent to Pensions Committee and Board 22/01/24

Background Papers

Fife Pensions Committee paper – Fife Pension Fund Actuarial Valuation 31 March 2023 – Draft Funding Strategy Statement – 14 December 2023

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Appendix 2

Summary of Correspondence sent to Pensions Committee and Board - 22/01/24

During the valuation process we have reviewed eligibility for the Contribution Stability Mechanism (CSM) and this was agreed by Committee in September 2023. This outlined the mechanism by which the fund can provide stability in the level of contribution rates for employers within the mechanism with contributions going up or down by up to 3% of pay in any given valuation cycle (implemented via 1% of pay per annum steps). As part of the 2023 valuation, the Fund Actuary has carried out in-depth Asset-Liability Modelling to check that this funding strategy remains suitable for the Fund. Based on the output of this modelling, this continues to be appropriate in the long term.

The funding position of the Fund is exceptionally strong at this valuation date, with the funding level for the whole fund being 151%. This healthy position is replicated for the most part across all employers in the Fund. This presented officers with new considerations in terms of reviewing the Funding Strategy Statement and assessing employers' contribution rates. It was proposed to keep the CSM in place and is deemed to be in the best interest of the long-term employers who are currently in the mechanism and may join the mechanism in the future. This is a prudent approach.

The considerable funding level was combined with the fact that all employers have been experiencing 40-year high levels of inflation which is impacting on affordability as a result of the current economic conditions.

It was mentioned in Committee that a proposal was being considered to flex the CSM and accelerate the reduction in employers contribution and that this would be a one off given the strength of the funding position. This would mean applying some flexibility as a one off. This was not written into the draft FSS as the materiality to the fund was insignificant and the ongoing impact going into the next valuation will still be a 3% of pay reduction by year 3.

To give some insight into the materiality – assuming all employers in the Fund participated in the CSM (which is not the case), accelerating the reduction in rates will mean that the fund will receive circa £12m less over the three-year period between 1 April 2024 to 31 March 2027 (there will be no impact beyond this timeframe from this decision). Against a fund value of around £3.5bn - a reduction of 0.034% over three years, however this is a meaningful benefit to employers.

Extensive modelling was carried out by the actuary, and the modelling confirmed that the differences in the level of funding risk were deemed to be negligible. If there had been a material difference, this would have been flagged in the committee report. The table below details how the main funding risk measures compared between reducing rates in line with CSM (1% of pay reduction per annum) and an accelerated reduction of 3% of pay immediately.

	Likelihood of success (100% funding)	Downside Risk
1%, 2% then 3% reduction	89.3%	68.6%
3% immediately	89.2%	68.5%

* Likelihood of success is defined as the probability that the funding level will be above 100% after 18 years. The downside risk is the average of the worst 5% of funding levels (note the absolute number is less important than the relevant differences between contribution strategies tested). Further information on these metrics and the derivation of them can be found in Guide 7 of Hymans Robertson's 2023 valuation toolkit: LGPS_2023_Valuation_Toolkit.pdf (hymans.co.uk)

It is also worth highlighting that the above risk metrics are more positive than the equivalent at the last valuation at 2020. Given all of this, the proposed action is extremely low risk, has little impact on the fund and leaves the CSM intact. It is also fair to the employer(s) as it recognises the significant strength of funding position, current pressures on employers but at the same time retains long term contribution rate stability.

Fife Council

Fife
Pension Fund
Administered by Fife Council

Funding Strategy Statement

March 2024

Pension Fund –Funding Strategy Statement

Contents

1 Welcome to Fife Pension Fund's Funding Strategy Statement

This document sets out the funding strategy statement (FSS) for Fife Pension Fund.

The Fife Pension Fund is administered by Fife Council, known as the Administering Authority. Fife Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 01 April 2024.

There's a regulatory requirement for Fife Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact john.mackie@fife.gov.uk

1.1 What is the Fife Pension Fund?

The Fife Pension Fund is part of the Scottish Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The Administering Authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Admission bodies

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the Administering Authority. You can find the investment strategy in the Fund's Statement of Investment Principles at www.fifepensionfund.org.

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the Fife Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations as they apply in Scotland.

Employer contributions are made up of two elements:

a) **the primary contribution rate** – contributions payable towards future benefits

b) **the secondary contribution rate** – the costs associated with sufficiently funding benefits accrued up to the valuation date and any adjustments to deliver stability in the overall contribution rate.

The primary rate also includes an allowance for the Fund's expenses.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

1. **the funding target** – how much money the Fund aims to hold for each employer

2. **the time horizon** – the time over which the employer aims to achieve the funding target

3. **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer*	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Council**	**Police, Colleges**	**Fire, Council ALEO's****	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	120% Ongoing	120% Ongoing	120% Ongoing	120% Ongoing	100% Low-risk exit	100% Ongoing
Minimum likelihood of success	80%	80%	80%	80%	50%	80%
Maximum time horizon	18 years	18 years	18 years	>20 members:18 years	Future working lifetime	Remaining contract period

Type of employer*	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Council**	**Police, Colleges**	**Fire, Council ALEO's****	**Open to new entrants**	**Closed to new entrants**	**(all)**
				<20 members; future working lifetime		
Primary rate approach	The primary contribution rate is that sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon.					
Secondary rate	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll/ monetary amount	% of payroll
Stabilised contribution rate?	Explicit stability mechanism	Explicit stability mechanism	May follow stability mechanism	May follow stability mechanism	No	No
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Follow stabilised arrangement	Follow stabilised arrangement	Full allowance	Full allowance
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Follow stabilised arrangement	Follow stabilised arrangement	None	None

** See Appendix D for further information on funding targets.*

*** The contribution rate for these employers (i.e. the Council subsidiaries) has been set to offer the same contribution rate pattern as the Council. In order to do this, we have tested the suggested rates for these Employer's and are comfortable that they meet the funding target within the required likelihood of success.*

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind.

The Fund operates an explicit contribution stability mechanism. This mechanism limits changes in contribution rate to 1% of pay per annum. This mechanism is reviewed by the fund at each triennial valuation to ensure it is an appropriate long-term funding strategy and it is only applicable to those employers who will participate in the Fund for the long-term and the employer has a suitably strong covenant and large membership. Stabilisation criteria and limits are reviewed during the valuation process, this review may also consider how changes in the contribution rates within the mechanism are profiled. The Administering Authority may review how the stability mechanism applies to or operates for an employer between valuations to respond to membership or employer changes.

At its sole discretion, for the reasons of long-term contribution stability, the Fund may apply the rules of the stability mechanism (ie limiting contribution rate increases to 1% of pay per annum) to other employers in the Fund. This will be communicated to relevant employers when it has been applied.

2.4 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is set out in Appendix E. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 Contribution rate pooling

The Administering Authority may operate contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the Fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the Fund receives the overall contributions required, the risk that individual employers develop a surplus or deficit increases. Therefore, pooling is usually only permitted after seeking advice from the Fund actuary and at the sole discretion of the Administering Authority.

Pooled employers are identified in the Rates and Adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't usually disclosed to pooled employers.

If an employer leaves the Fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 Administering Authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the Administering Authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the Administering Authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

2.7 Prepayment of employer contributions

The Fund will consider prepayment of employer contributions on a case-by-case basis. Considerations will include whether to permit prepayment and how such prepayments may be calculated. Advice from the Fund actuary will typically be sought.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread over a time period if the Administering Authority agrees.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, an additional funding strain will arise which may be a large sum. The funding strain is the responsibility of the member's employer to pay. Employer contribution rates include an allowance for potential ill health funding strain but this may be insufficient to cover the actual strain cost. This is more likely to be the case for smaller employers in the fund (eg admission bodies) due to the size of their payroll compared to the magnitude of strain costs.

The Administering Authority does not offer any arrangement to mitigate this. Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

Each Fund employer has a notional share of the Fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The Fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole Fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new employer is formed or an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see Section 5).

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the Fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on contribution rates.

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the approach set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New admission bodies as a result of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the Administering Authority or in the contract admission agreement.

5.3 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

5.4 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the Administering Authority's satisfaction.

After considering the assessment, the Administering Authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another Fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is in Appendix F.

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The Administering Authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the Fund leaves the scheme.

7.2 What happens on cessation?

The Administering Authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using the Fund's risk-based cessation approach, outlined in Appendix G

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on the employer joining the Fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising a deficit or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund actuary charges a fee for cessation valuations. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and Fund. Costs will be charged even if the cessation does not go ahead.

The cessation policy is in Appendix G.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the Administering Authority will obtain a revised rates and adjustments certificate showing the exit credit payable to the exiting employer.

Full details of the Fund's approach to cessation valuations can be found in the Fund's cessation policy (in Appendix G).

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a deferred debt agreement (DDA), it stays in the Fund and pays contributions until the cessation debt is repaid (confirmed by the Fund). Payments are reassessed at each formal valuation.

More detail of the flexibilities available to employers on exit can be found in the Fund's cessation policy.

7.5 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

a) their asset share runs out before all ex-employees' and dependants' benefits have been paid. The other Fund employers will be required to contribute to fund the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis based on a methodology agreed at the time with the Fund.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will apportion the remaining assets to the other Fund employers on a methodology agreed at the time with the Fund.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires that the Government Actuary's Department must report to the Scottish Public Pensions Agency (SPPA) acting on behalf of Scottish Ministers on each of the LGPS Funds in Scotland. This report is usually called a 'Section 13 report'. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the Administering Authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 18 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for Fund experience.

These metrics may be assessed by GAD and SPPA on a standardised market-related basis where the Fund's actuarial bases don't offer straightforward comparisons.

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). The purpose of the FSS is to document the processes the Administering Authority uses to:

4. *establish a **clear and transparent Fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
5. *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
6. *ensure the Fund meets its **solvency and long-term cost efficiency** objectives*
7. *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the Administering Authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included issuing a draft version to participating employers and offering the opportunity to discuss any key aspects. Any policy changes from the previous version of the FSS were highlighted to employers during the process.

A3 How is the FSS published?

The FSS is

- Published on the Fund's website
- Published as part of the Pensions Committee agendas
- Available freely on request

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the statement of investment principles, administration strategy and communications strategy. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all Fund documentation at www.fifepensionfund.org

Appendix B – Roles and responsibilities

B1 The Administering Authority:

1 operates the Fund and follows all LGPS (Scotland) regulations

2 manages any conflicts of interest from its dual role as Administering Authority and a Fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the Statement of Investment Principles (SIP)

7 communicates with employers so they understand their obligations

8 safeguards the Fund against employer default

9 works with the Fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the Fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the Administering Authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the Fund.

B3 The Fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting Fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on Fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the Administering Authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the Fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the Statement of Investment Principles (SIP) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the Statement of Investment Principles

3 auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the Administering Authority on processes and working methods

5 internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the Administering Authority's own procedures

6 the SPPA/Scottish Ministers (assisted by the Government Actuary's Department) and the Scottish LGPS Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The Administering Authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in its constitution:

www.fifepensionfund.org/forms-and-publications/fife-pension-board-constitution .

Details of the key Fund-specific risks and controls are set out in the Fund's Risk Register which is presented on annually to the Pensions Committee for approval and reviewed quarterly. The Fund's latest Risk Register can be accessed as part of the Pensions Committee agenda papers which are published on Fife Council's website.

C2 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire, Colleges	Tax-raising or government-backed, no individual assessment required	n/a
Admission bodies (including TABs & CABs)	Assessments may be commissioned by specialist as appropriate or carried out by Fund Officers.	The Fund will review employers periodically or when a significant event occurs.

C3 Climate risk and TCFD reporting

The Fund has considered climate-related risks as part of the 2023 valuation when setting the funding strategy. To consider the resilience of the strategy the Fund has considered climate scenario stress testing as part of an asset-liability modelling exercise. The modelling results under the stress tests were within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The modelling was carried out at whole fund level. Given that the same underlying model is used for all employers when setting contribution rates, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Statement of Responsible Investment Principles which is available on the Fund's website.

Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the Funding Strategy Statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the Fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the Fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2023

Time period	Percentile	Asset class annualised total returns							Inflation/Yields		
		Cash	All World ex UK Equity	UK Equity	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	Property	Corporate Debt	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th	2.5%	1.1%	1.3%	0.8%	2.4%	1.2%	2.7%	0.9%	-0.3%	2.7%
	50th	3.6%	7.3%	7.5%	2.8%	3.7%	6.2%	4.3%	2.5%	0.9%	4.1%
	84th	4.7%	13.6%	13.5%	5.1%	4.9%	11.5%	5.8%	4.1%	2.2%	5.9%
20 years	16th	2.3%	2.8%	3.0%	1.0%	3.3%	2.7%	3.7%	0.7%	-0.5%	1.4%
	50th	3.7%	7.4%	7.5%	2.7%	4.1%	6.4%	4.7%	2.3%	1.3%	3.4%
	84th	5.4%	12.2%	12.0%	4.5%	4.8%	10.3%	5.8%	3.9%	2.9%	5.9%
40 years	16th	1.8%	3.7%	3.9%	1.0%	2.9%	3.2%	3.4%	0.6%	-0.6%	1.2%
	50th	3.5%	7.2%	7.4%	2.7%	3.7%	6.2%	4.4%	2.0%	1.3%	3.3%
	84th	5.7%	10.9%	10.9%	4.6%	4.9%	9.5%	5.8%	3.5%	3.2%	6.1%
	Volatility (5yr)	2%	18%	18%	7%	5%	15%	8%	3%	-	-

ESS assumptions are calibrated against current market conditions at each month end. Contribution rate assessments carried out after 31 March 2023 (for new employers joining the Fund) will use the most up to date calibration of the ESS.

D3 What financial assumptions were used?

Future investment returns and discount rate

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except closed community admission bodies	1.9%
Low-risk exit basis	Community admission bodies closed to new entrants	0%

Discount rate (for funding level calculation as at 31 March 2023 only)

For the purpose of calculating a funding level at the 2023 valuation, a discount rate of 5.5% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 70% likelihood that the Fund's assets will achieve future investment returns of 5.5% pa over the 18 years following the 2023 valuation date.

Pension increases and CARE revaluation

Increases to pensions in payment, deferred benefits and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the relevant regulations.

The CPI assumption is based on Hymans Robertson's ESS model.

For funding level calculations, the CPI assumption is based on the median value from the ESS model over a time horizon consistent with that used to derive the discount rate. The median value of CPI inflation from the ESS was 2.3% pa on 31 March 2023.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.5% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the Fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2022 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point (A parameter) has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies. The smoothing parameter used in the CMI model is 7.0.

A weighting of 0% has been applied to 2020 and 2021 data within the model to avoid overstating the impact of the covid-19 pandemic on future life expectancy. However a weighting of 25% has been applied for 2022 data reflecting emerging data on the longer term impact of the pandemic and a wider slow down in life expectancy improvements.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 85% for males and 60% for females. The dependant of a male member is assumed to be 2 years younger than him and the dependant of a female members is assumed to be 3.5 years older than her.
Commutation	70% of maximum tax-free cash
50:50 option	0.2% of members will choose the 50:50 option.

D3 Rates for demographic assumptions

Males

Incidence per 1000 active members per year (excluding salary scale)								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	270.14	434.15	0	0	0	0
25	117	0.21	178.44	286.77	0.11	0.02	0.13	0.02
30	131	0.26	126.57	203.42	0.21	0.03	0.23	0.03
35	144	0.30	98.87	158.90	0.41	0.14	0.46	0.15
40	154	0.51	79.56	127.86	0.62	0.26	0.69	0.24
45	164	0.86	46.50	104.62	0.99	0.51	1.09	0.49
50	174	1.37	36.02	81.04	1.86	1.31	2.59	1.45
55	179	2.15	34.60	77.85	5.83	4.52	4.67	3.11
60	184	3.86	30.82	69.33	9.91	6.97	3.87	2.65
65	185	6.44	0	0	18.92	13.49	0	0

Females

Incidence per 1000 active members per year (excluding salary scale)					
Age	Salary scale	Death before retirement	Withdrawals	Ill-health tier 1	Ill-health tier 2

		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.11	359.79	338.79	0	0	0	0
25	117	0.11	242.03	227.90	0.16	0.13	0.09	0.10
30	131	0.16	202.83	190.19	0.21	0.18	0.12	0.13
35	144	0.27	124.95	164.73	0.41	0.34	0.24	0.25
40	154	0.44	103.93	137.00	0.61	0.51	0.36	0.37
45	164	0.71	85.55	112.78	0.82	0.68	0.48	0.50
50	174	1.04	65.19	85.94	1.50	1.23	1.11	1.13
55	179	1.37	60.98	80.39	5.47	4.43	2.32	2.35
60	184	1.75	49.03	64.64	11.52	9.30	2.38	2.40
65	185	2.25	0	0	20.73	16.76	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?

Please refer to the Fund's cessation policy in Appendix G for further information.

Appendix E – Policy on contribution reviews

Effective date of policy	01 April 2024
Date approved	28 March 2024
Next review	2026

Introduction

The purpose of this policy is to set out the Administering Authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

E1 Aims and objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

E2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the Fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

E3 Guidance and regulatory framework

Regulation 61 of the Local Government Pension Scheme (Scotland) Regulations 2018 sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 61 (6) – allows the Administering Authority to review the contribution rate if it becomes likely that an employer will cease participation in the Fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 61A - sets out specific circumstances where the Administering Authority may revise contributions between valuations (including where a review is requested by one or more employers).

E4 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The Administering Authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the Administering Authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the Fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

E5 Policy

E5.1 Circumstances for review

The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the Administering Authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

E5.2 Employer requests

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The Administering Authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or

- information relating to sources of funding.

The costs incurred by the Administering Authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

E5.3 Other employers

When undertaking any review of contributions, the Administering Authority will also consider the impact of a change to contribution rates on other Fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole Fund.

The Administering Authority will consult with other Fund employers as necessary.

E5.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider financial market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

E5.5 Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the Administering Authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

E6 Related Policies

The Fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

Appendix F – Policy on bulk transfers

Effective date of policy	01 April 2024
Date approved	28 March 2024
Next review	2026

Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

F1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- Bulk transfers out of the fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- Bulk transfers received by the fund must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

F2 Background

Bulk transfers into and out of the fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the Fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services or college mergers); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

F3 Guidance and regulatory framework

F3.1 Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the administering authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended), including:

- Regulation 93 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.
- Regulation 94 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.
- Regulation 95 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with "non-Club" accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 97 - states that any transfer between one LGPS fund and another LGPS fund where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

F3.2 Local Authorities

The Statutory Guidance to Local Authorities on Contracting, which came into force on 10 August 2006, applies to contracting by local authorities and to any exercise which involves the consideration of a change of service provider or where the transfer of local authority staff is at issue. The statutory guidance:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority
- where a broadly comparable scheme is provided, the new employer's pension scheme should allow transferring employees the option of moving their accrued credits into that scheme on a fully protected basis, and
- provides that the provision of pension protection is enforceable by the employee.

The Guidance also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

Where the service provider recruits or allocates staff to work on a local authority contract alongside employees transferred from the local authority, all new recruits should be offered access to pension provision which, where applicable, can be equated broadly comparable to that enjoyed by originally transferred local authority employees.

F3.3 Other employers

For all scheme employers that do not fall under the statutory guidance there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the fund, subject to complying with the administering authority's requirements (e.g. having a bond or guarantor in place).

In the absence of a bulk transfer agreement the administering authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate Government Actuary's Department (GAD) guidance.

F4 Statement of principles

This statement of principles covers bulk transfer payments into and out of the fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the fund, the administering authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.

- Ordinarily the administering authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer's share of fund assets (capped at 100% of the value of the liabilities). The fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):

    - the use of cessation assumptions where unsecured liabilities are being left behind;

    - where a subset of an employer's membership is transferring (in or out), the Fund may consider an approach of calculating the bulk transfer payment as the sum of CETVs for the members concerned; or

    - where transfer terms are subject to commercial factors.

- Where an entire employer is transferring in or out of the fund the bulk transfer should equal the asset share of the employer in the transferring fund regardless of whether this is greater or lesser than the value of past service liabilities for members.

- There may be situations where the fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the administering authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing in ongoing employer contributions) ahead of the next formal valuation.

- Any shortfall between the bulk transfer payable by the fund and that which the receiving scheme is prepared to accept must be dealt with outside of the fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.

- Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

F5 Policy

The following summarises the various scenarios for bulk transfers in or out of the fund, together with the Administering Authority's associated policies.

F5.1 Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy	Methodology
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the Fund will award the member a pension credit on a day-for-day basis.
	10 or more members – Regulation 97 of the Local Government Pension Scheme (Scotland) Regulations 2018	Where agreement can be reached, the Fund and the transferring fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached: **Actives only transferring:** CETVs in accordance with GAD guidance using transferring fund's actual fund returns for roll up to date of payment (rather than the interest applied for standard CETV's). **All members transferring (i.e. all actives, deferred and pensioners):** Receive all assets attributable to the membership within the transferring scheme.	The Fund's default policy is to accept a transfer value that is at least equal to the total of the individual CETVs calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Pension credits will be awarded to the transferring members on a day-for-day basis.
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
	10 or more members – Regulation 97 of the Local Government Pension Scheme (Scotland) Regulations 2018	Where agreement can be reached, the Fund and the receiving Fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached: **Actives only transferring (i.e. remaining members left behind):** CETV in accordance with GAD guidance using transferring fund's actual fund returns for roll-up to date of payment (rather than the interest applied for standard CETV's). **All actives transferring (i.e. deferred and pensioner members left behind):** Assets will be retained by the Fund to cover the liabilities of the deferred and pensioner members calculated using the Fund's cessation assumptions.	The Fund's default policy is to offer a transfer value that is equal to the total of the individual CETV calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Discretion exists to amend this to reflect specific circumstances of the situation.

		The residual assets will then be transferred to the receiving scheme. **All members transferring (i.e. all actives, deferred and pensioners):** Transfer all assets attributable to the membership to the receiving scheme.	

F5.2 Club Scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits.	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
Out	Regulation 93 of the Local Government Pension Scheme (Scotland) Regulations 2018 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the Club transfer-out formulae. Discretion exists to amend this to reflect specific circumstances of the situation.

F5.3 Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer in formulae.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	2 or more members – Regulation 93 of the Local Government Pension Scheme (Scotland) Regulations 2018	Where agreement can be reached, the fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under	The fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae. Discretion exists to amend this to reflect specific circumstances of the situation.

		GAD guidance	

F6 Practicalities and process

F6.1 Format of transfer payment

Ordinarily, payment will be in cash.

A deduction from the bulk transfer may be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

F6.2 Impact on transferring employer

Any transfer out or in of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in funding position, for example where the deterioration in funding position is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

F6.3 Consent

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

F6.4 Approval process

The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to. All bulk transfers that represent a departure from this policy will be put to the Pensions Committee for agreement, detailing any proposals to depart from this policy.

F6.5 Non-negotiable

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

F6.6 Costs

Actuarial and other professional costs will be recharged in full to the employer.

F7 Related Policies

The Fund's general approach to bulk transfers is set out in the Funding Strategy Statement, specifically "Section 6 –What happens if an employer has a bulk transfer of staff?"

Appendix G – Policy on cessations

Effective date of policy	01 April 2024
Date approved	28 March 2024
Next review	2026

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework and the Fund's discretionary policies (see below).

G1 Aims and Objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the Administering Authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

G2 Background

As described in the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the Administering Authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, however is liable for any surplus through the payment of an exit credit.

G3 Guidance and regulatory framework

The Local Government Pension Scheme (Scotland) Regulations 2018 contain relevant provisions regarding employers leaving the Fund (Regulation 61) and include the following:

1. Regulation 61 (2) – this regulation states that, where an employing authority ceases to be a scheme employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from, or the exit credit payable to, the exiting employer.
2. Regulation 61 (3) – the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.
3. Regulation 61 (4B-4G) – the Administering Authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of a cessation debt despite having no active members.

4. Regulation 61 (5) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining Fund employers may be amended.
5. Regulation 61 (6) – where it is believed a scheme employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
6. Regulation 61 (7) – following the payment of an exit payment to/from the Fund, no further payments are due to the Fund from the exiting employer.
7. Regulation 61B (1) – the Administering Authority may set out a policy on spreading exit payments.

In addition to the 2018 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

These regulations relate to all employers in the Fund.

G4 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

c) It is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

d) The Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per the FSS and Section 3.1 above). This would extinguish any liability to the Fund by the exiting employer.

e) The Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of any cessation debt.

G5 Policies
On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see 3.2 Repayment flexibility on exit payments above).

In circumstances where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid to the exiting employer in line with the Regulations.

If there is any doubt about the applicable LGPS benefit structure at the date of exit, the Fund's actuary may include an estimate of the possible impact of any resulting benefit changes when calculating an employer's pension liabilities to determine the level of any exit payment or credit.

G5.1 Approach to cessation calculations
Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Risk based cessation approach[1]	Shared between other Fund employers
Designating employers	Risk-based cessation approach	Shared between other Fund employers (if no guarantor exists)
Colleges	Risk based cessation approach[1]	Shared between other Fund employers
Admission bodies ("TABs" – typically contractors)	Ongoing basis[2]	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies ("CABs" – typically any ABs other than contractors)	Risk based cessation approach	Shared between other Fund employers (if no guarantor exists)

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the Administering Authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on the risk-based cessation approach.

Risk-based cessation approach
The Fund uses a risk-based approach to set employer funding strategies, including within cessation calculations. In particular, the likelihood of the Fund's assets achieving particular future investment returns is analysed.

Where appropriate, the Fund will use this approach to set an upper and lower amount (or "corridor") in order to consider the amount of assets a ceasing employer must leave behind to pay for its members' benefits.

Under this approach, an employer is deemed to have a deficit if its assets are below the lower amount and a surplus if its assets are above the higher amount (ie there will be no deficit or surplus if a ceasing employer's assets fall within the "corridor").

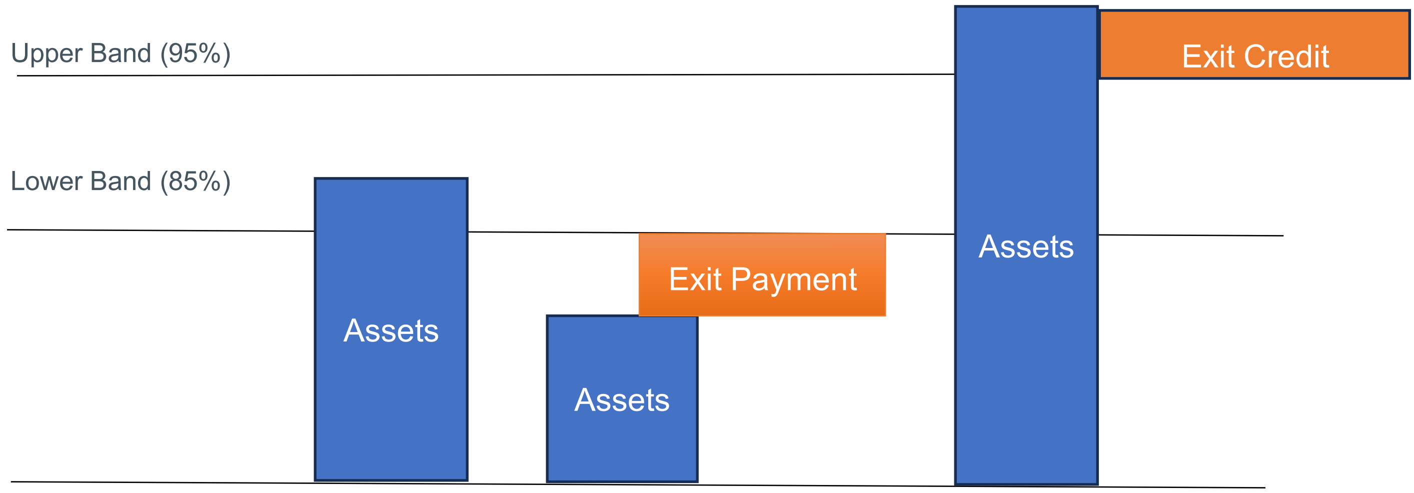
The upper bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using an investment return assumption that is expected to be achieved in 95% of outcomes over the next 18 years (based on the Fund's investment strategy at the calculation date).

The lower bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using an investment return assumption that is expected to be achieved in 85% of outcomes over the next 18 years (based on the Fund's investment strategy at the calculation date).

When calculating the liabilities, all other financial and demographic assumptions are as set out in the Funding Strategy Statement with the exception of future longevity improvements, where a long-term improvement of 1.75% pa is assumed.

The Administering Authority reserve the right to adopt alternative assumptions if felt necessary to protect the interests of the Fund.

The picture below illustrates how the corridor operates in practice.



The Fund reserves the right to review the definition of the corridor as part of any review of this policy.

G5.2 Repayment flexibility on exit payments
Deferred spreading arrangement (DSA)
The Fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the Fund's policy is:

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.

- The exiting employer may be asked to provide the Administering Authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within three months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund reserves the right to require that the exiting employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by Fund Officers, in consultation with the Chair, if an urgent decision is required between Committee meetings.
- All costs of the arrangement are to be met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

Deferred debt agreement (DDA)

When an exiting employer is unable to pay the required cessation payment as a single lump-sum, the Fund's preferred policy is to spread the payment via a deferred spreading arrangement (DSA). However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 61 (4B)).

Where a DDA is in place, the employer must continue to meet all regulatory and Fund-specific requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

8. The employer enrols new active Fund members.
9. The period specified, or as varied, under the DDA elapses.
10. The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
11. The Administering Authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
12. The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully Funded on their exit basis).
13. The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
14. The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

G6 Practicalities and process

G6.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).
- meet the cost of all fees and charges incurred by the Fund in the course of cessation including, but not limited to, the cost to obtain the cessation valuation report from the Fund Actuary and the cost of implementing a flexible repayment option (as set out in section 3.2).

G6.2 Responsibilities of Administering Authority

The Administering Authority will:

- gather information as required, including, but not limited to, the following:
  - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
  - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
  - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a zero exit payment by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

G6.3 Payment of an exit credit

15. If an exit credit is payable, the Fund will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six-month

timeframe, the Fund requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The Fund is unable to make any exit credit payment until it has received all data requested.

16. At the time this policy was effective from, the Fund has been informed by HMRC that exit credits are not subject to tax. However all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

G6.4 Responsibilities of the actuary

Following commission of a cessation valuation by the Administering Authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the Administering Authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

G7 Related Policies

The Fund's approach to setting of employer contribution rates is set out in the FSS, specifically "Section 2 - How does the Fund calculate employer contributions?"

The Fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the Fund?".

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

Pensions Committee

28 March 2024

Agenda Item No. 7

Fife Pension Fund – Actuarial Valuation

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The attached report provides members with the final Report on the Actuarial Valuation Report as at 31 March 2023.

Recommendation(s)

The committee is asked to:-

(1) note the contents of the Valuation Report; and

(2) approve the contribution rates per the Rates and Adjustment certificate detailed in Appendix 5 of the attached valuation report.

Resource Implications

The cost of the valuation process was planned and met from the Fife Pension Fund budget. Resources were allocated to the work involved in completing the valuation process over the last year.

Legal & Risk Implications

It is a legal requirement that the Pension Fund commissions a valuation at least every three years to ensure the fund meets its funding objectives. Assumptions agreed in relation to the valuation must be prudent and be decided on following advice from the scheme actuary. Managing risk is an important aspect of the valuation process and has been considered throughout the planning period and referenced in section 3 of the Valuation Report attached. The Funding Strategy Statement has been prepared in accordance with the LGPS regulations.

Impact Assessment

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

Consultation

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. Consultation with Employers was also undertaken.

1.0 Background

1.1 There is a statutory requirement for the Fife Pension Fund to go through a valuation process. The valuation date is 31st March 2023, and the valuation will require approval by 31st March 2024. To achieve this timescale, planning and preparatory work commenced in the last quarter of 2022.

1.2 The Fund Officers have been working with Hymans Robertson, the fund actuary, to agree the valuation process and the timescales associated with each step in the process.

1.3 The timeline has previously been agreed and reporting to committee at various stages throughout the process has been more frequent during this valuation process to ensure that Committee members had the ability to scrutinise and influence the various stages throughout the process of the valuation. The final Report on the Actuarial Valuation Report as at 31 March 2023 is the culmination of the valuation process and is brought for approval by committee in order to meet the statutory deadline of agreeing the valuation by 31st March 2024. Training on relevant stages of the process has been provided for Committee and Board members in advance of committee meetings, in line with the agreed training policy, with the training relating to final valuation taking place on 4th March 2024.

1.4 Reports have been presented to Committee for consideration at various stages throughout the valuation process. These reports covered Assumptions, Whole Fund Results and Funding Strategy Statement.

1.5 Since the last Committee meeting, good progress has continued to be made in concluding the 2023 valuation. The Fund's Officers and Actuary have:

- Consulted on the funding strategy with all employers in the Fund.
- Prepared an updated version of the Fund's Funding Strategy Statement (FSS), subject to a separate report on this agenda
- Calculated individual employer contribution rates which will be payable by employers for the period 1 April 2024 to 31 March 2027.
- Communicated individual employer results to each active employer in the Fund during December 2023.

2.0 The Valuation Process and Remaining Actions

2.1 The valuation process is complete in terms of data processing and calculating the results. There are some actions that still need to be progressed in respect of the valuation:

- Committee to formally approve the final Funding Strategy Statement per a separate report on this agenda
- The Fund Actuary to sign off the final valuation report by 31 March 2024 in line with the LGPS regulations (draft version attached)
- Officers and the Fund Actuary to submit certain data and calculations to the Government Actuary Department for national “section 13” valuation purposes as required.

2.2 The overall results of the valuation and resulting employers’ rates are detailed in the attached report “Fife Pension Fund, Report on the actuarial valuation as at 31 March 2023” prepared by the Fund Actuary, Hymans Robertson.

2.3 The report summarises the approach to the valuation, the valuation results, sensitivity and risk analysis. The report is supported by a number of appendices, including the Rates and Adjustments Certificate (Appendix 5) which details the individual employers’ contribution rates.

3.0 Valuation Results

3.1 At 31 March 2023 the funding position has improved to a funding level of 151% from the last valuation at 31 March 2020, which was a funding level of 97%.

3.2 The funding level is a ratio of assets to liabilities. The liabilities and therefore funding level is calculated using a range of different assumptions for future investment returns, these are known as discount rates. The likelihood of the investment strategy meeting those levels of return is also calculated. A range of investment strategies including the proposed strategy were tested. The proposed strategy results in a strong position.

3.3 The valuation demonstrates a significant improvement since 2020, this is due to the better-than-expected investment returns having a positive impact on the funding position. Expectations for the future which are used to inform the liabilities calculation have also changed, contributing largely to the improved position.

3.4 Given the strong funding level, it is recommended that employers’ rates are cautiously reduced over the next 3 years until the next valuation cycle with the proposed rates for each employers being set out in the Rates and Adjustments Certificate (Appendix 5 of the attached valuation report).

3.5 The Updated Funding Strategy Statement highlights how the different employers, and their different circumstances have their contributions calculated.

4.0 Conclusions

4.1 The 2023 valuation process has progressed well and a draft version of the Final Valuation Report is attached for approval.

4.2 Next steps have been identified in section 2 of this report and will progress in time for the statutory date of 31st March 2024.

List of Appendices

1. Fife Pension Fund Actuarial valuation as at 31 March 2023 Final Valuation Report

Background Papers

Fife Council Pensions Committee paper- Fife Pension Fund Actuarial Valuation 31 March 2023 – Assumptions – 23 June 2023

Fife Council Pensions Committee paper - Fife Pension Fund Actuarial Valuation 31 March 2023 – 28 September 2023

Fife Council Pensions Committee paper - Fife Pension Fund Actuarial Valuation 31 March 2023 – Draft Funding Strategy Statement – 14 December 2023

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HYMANS ROBERTSON

Fife Pension Fund

Report on the actuarial valuation as at 31 March 2023

March 2024

Robert Bilton FFA

Greer Flanagan FFA

For and on behalf of Hymans Robertson LLP

Hymans Robertson LLP

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f 020 7082 6082	f 0141 566 7788	f 0121 210 4343	f 0131 656 5050

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Contents

1) Executive summary

We have been commissioned by Fife Council ("the Administering Authority") to carry out a valuation of the Fife Pension Fund ("the Fund") as at 31 March 2023. This fulfils Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018. This report is a summary of the valuation.

1. Contribution rates

The contribution rates for individual employers set at this valuation can be found in the Rates and Adjustments certificate. Table 1 shows the combined individual employer rates set at this valuation and the last valuation.

	31 March 2023		31 March 2020	
Primary rate	22.1% of pay		25.6% of pay	
Secondary rate	2024/25	-£3,570,000	2021/22	-£3,550,000
	2025/26	-£3,670,000	2022/23	-£3,454,000
	2026/27	-£3,774,000	2023/24	-£3,339,000

Table 1: Whole fund contribution rates compared with the previous valuation

The overall contribution rate, expressed as a percentage of pay, has reduced due to both an improvement in the past service funding position and higher assumed future investment returns at 2023 compared to 2020.

2. Funding position

At 31 March 2023, the past service funding position has improved from the last valuation at 31 March 2020. Table 2 shows the single reported funding position at this valuation and the last valuation.

	31 March 2023	31 March 2020
	(£m)	(£m)
Employees	885	1,145
Deferred Pensioners	266	319
Pensioners	1,121	1,144
Total liabilities	**2,272**	**2,608**
Assets	**3,420**	**2,536**
Surplus (Deficit)	**1,148**	**(72)**
Fund level	**151%**	**97%**

Table 2: Single reported funding position compared with the previous valuation

The required investment return to be 100% funded is c.2.8% p.a. (3.2% p.a. at 2020). The likelihood of the Fund's investment strategy achieving the required return is 94% (68% at 2020).

1 Approach to the valuation

1.1 Valuation purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

This report marks the culmination of the valuation process and contains its two key outcomes:

1. Employer contribution rates for the period 1 April 2024 to 31 March 2027
2. The funding level of the whole Fund at 31 March 2023.

Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Statement of Investment Principles and published papers of the Fund's Pensions Committee. Additional material is also contained in Hymans Robertson's LGPS 2023 valuation toolkit.

1.2 Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex, as benefits earned today may only start being paid in 50 years' time. Over that period, there is significant uncertainty over factors which affect the cost of benefits e.g. inflation and investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around three key funding decisions set by the Fund.

1.2.1 Key funding decisions

Decision 1: What is the funding target for each employer?
Consider: Will the employer remain in the Fund for the long-term or exit at some point?

Decision 2: What is the funding time horizon?
Consider: How long will the employer participate in the Fund?

Decision 3: What is the required likelihood of success?
Consider: How much prudence can the employer's covenant support in its funding plan?

1.2.2 Modelling approach

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. These are generated using Hymans Robertson's Economic Scenario Service (ESS). Further information on this can be found in Appendix 2.

A contribution rate is set for each employer which has (at least) the required likelihood of meeting the funding target over the relevant funding time horizon. The 5,000 projections of the employer's assets and benefits from the asset-liability model are used to quantify the likelihood that a given contribution rate will meet this target.

1.3 Measuring the funding level

The past service funding level is measured at the valuation date. While it is limited in providing insight into a funding plan, it is a useful high-level summary statistic. A market-related approach is taken to calculate both the assets and the liabilities to ensure they are consistent with one another:

1. The market value of the Fund's assets at the valuation date has been used.
2. The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in Appendix 2).

1.3.1 Calculating the liabilities

The liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation (Appendix 1), the assumptions (Appendix 2), and our understanding of the LGPS benefit structure as at 31 March 2023 (details at www.scotlgpsregs.org).

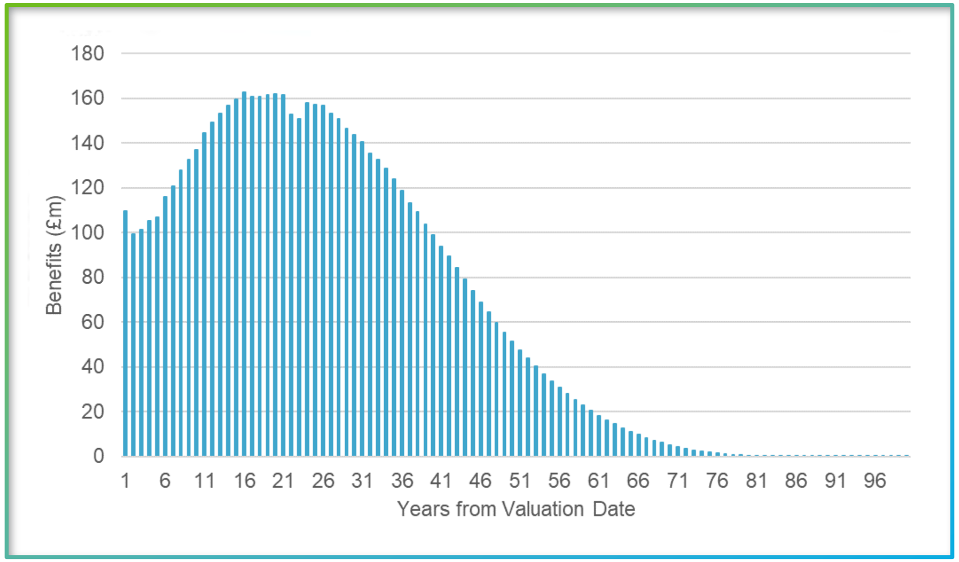

Chart 1: Projected benefit payments for all service earned up to 31 March 2023

To express the future payments in today's money, each projected payment is discounted back to the valuation date in line with an assumed rate of future investment return (known as the discount rate').

2 Valuation results

2.1 Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will enable it to pay members' benefits. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both those objectives.

The employer contribution rate is made up of two components.

1. **A primary rate:** the level sufficient to cover benefits that will be accrued in the future.
2. **A secondary rate:** the costs associated with sufficiently funding benefits accrued up to the valuation date.

Each employer has a contribution rate which is appropriate to their circumstances, and these can be found in the Rates & Adjustments Certificate (Appendix 5).

Broadly, contribution rates (in percentage of pay terms) have reduced at this valuation due to both an improvement in the past service funding position and higher assumed future investment returns at 2023 compared to 2020.

However, all employers will be different, and the contribution rate will reflect the membership and experience of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2024 to 31 March 2027.

	31 March 2023		31 March 2020	
Primary rate	22.1% of pay		25.6% of pay	
Secondary rate	2024/25	-£3,570,000	2021/22	-£3,550,000
	2025/26	-£3,670,000	2022/23	-£3,454,000
	2026/27	-£3,774,000	2023/24	-£3,339,000

Table 3: Whole fund contribution rates compared with the previous valuation

The primary rate includes an allowance of 0.6% of pensionable pay for the Fund's expenses (0.6% of pay at the last valuation).

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2023 is 5.9% of pay (6.0% at 31 March 2020).

2.2 Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date is known. The value (in 'today's money') of the future benefit payments is uncertain given that the level of future investment returns is unknown.

To help understand funding risk, the liabilities and therefore the funding level has been calculated across a range of different assumptions for future investment returns (also known as 'discount rates'). The likelihood of the Fund's investment strategy (detailed in Appendix 1) achieving those levels of return has also been calculated.

Chart 2 shows how the funding level varies with different future investment return assumptions at 31 March 2023 (blue line). The green line shows the same analysis at 31 March 2020.

- The funding position at 2023 is stronger than it was in 2020.
- The funding level at 2023 will be 100% if future returns are around 2.8% pa. The likelihood of the Fund's assets yielding at least this return is around 94%.
- The comparator at 2020 was a return of 3.2% pa which had a likelihood of 68%.
- There is a 50% likelihood of an investment return of 7.0% pa, so the "best estimate" funding level is 187% at 31 March 2023 (122% at 2020).

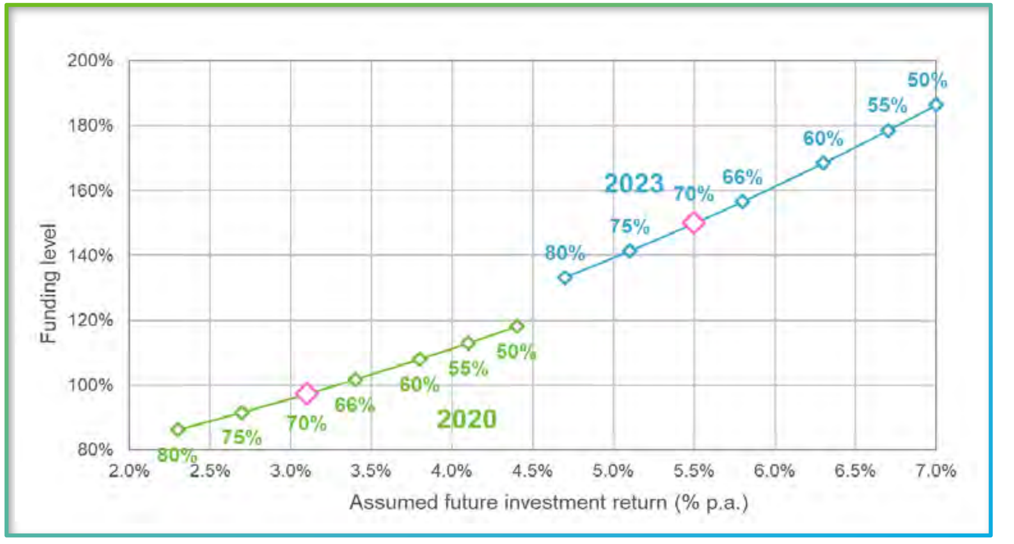

Chart 2: Funding level across a range of future investment returns.

Figures on each line show the likelihood of the Fund's assets exceeding the level of return over the next 20 years.

2.3 Single funding level as at 31 March 2023

Whilst Chart 2 provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2023.

To report a single funding level and funding surplus/deficit for the 2023 valuation, an assumed future investment return of 5.5% pa has been used. There is an 70% likelihood associated with this level of future investment return.

Table 4 sets out the assets and liabilities at the valuation date. The results at the 2020 valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position as at 31 March 2023, but there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change daily.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation occur in practice, employers pay contributions in line with the R&A certificate, and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2026) will stay approximately the same.

	31 March 2023	31 March 2020
	(£m)	(£m)
Employees	885	1,145
Deferred pensioners	266	319
Pensioners	1,121	1,144
Total liabilities	**2,272**	**2,608**
Assets	**3,420**	**2,536**
Surplus/(Deficit)	**1,148**	**(72)**
Funding level	**151%**	**97%**

Table 4: Single reported funding position compared with the previous valuation

The reported funding level does not directly drive the contribution rates for employers. The contribution rates take into consideration how assets and liabilities will evolve over time in different economic scenarios. They also reflect each employer's funding profile and covenant.

2.4 Changes since the last valuation

2.4.1 Events between 2020 and 2023

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. However, the analysis below shows that mortality experience was broadly as expected over the period with minimal impact on the funding position.

A significant factor which has affected the funding strategy is better than expected investment returns. This has had a material positive impact on the funding position.

Tables 5 and 6 detail the actual experience in key areas between the 2020 and 2023 valuation compared to that expected at the 2020 valuation.

Financial

	Expected	Actual	Difference	Impact on funding position
Investment returns				
3-year period	9.6%	32.9%	23.3%	+£594m
Annual	3.1% pa	9.9% pa	6.8% pa	

Table 5: Analysis of investment return experience between 2020 and 2023 valuations

Membership

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early leavers	3,596	4,040	444	+£1m
Ill-health retirements	240	221	-19	+£10m
Salary increases	3.0% pa	6.3% pa	3.3% pa	-£74m
Post-retirement				
Benefit increases	1.7% pa	4.5% pa	2.8% pa	-£207m
Pension ceasing	£5.9m	£6.0m	£0.1m	<£0.5m

Table 6: Analysis of membership experience between 2020 and 2023 valuations

2.4.2 Outlook for the future

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

Future inflation: this is expected to be on average higher than at 2020.

Investment returns: due to changes in the economic environment, future investment returns are now expected to be higher than at the last valuation.

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which you discount back future benefits payments (also known as the discount rate assumption)	Future investment returns are anticipated to be higher than at 2020.	Decrease of £1,105m
Inflation	The rate at which pensions (both in payment and deferment) and CARE pots increase.	Increase in short-term future inflation expectations.	Increase of £346m
Salary increases	The rate at which future salaries will increase. This affects benefits that are still linked to final salary, i.e. accrued before 1 April 2015.	No change in assumed level above CPI inflation since last valuation given competing factors, eg tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Negligible
Current life expectancy	How long we expect most people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy (not allowing for Covid-related excess deaths)	Decrease of £12m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Updated model of future improvements to the most recent model available, including allowance for some recent mortality experience related to the excess deaths from the Covid 19 pandemic.	Decrease of £65m

Table 7: Summary of change in outlook

2.5 Reconciling the overall change in funding position

Tables 8 & 9 provide a summary insight into the funding position change between 31 March 2020 and 31 March 2023. Firstly, the changes expected to happen (Table 8), which relate mostly to assets. Then the impact of actual experience (Table 9), which affects mainly the liabilities.

2.5.1 Expected development

	Surplus/(deficit)
	£m
31 March 2020 valuation	**(72)**
Cash flows	
Employer contributions paid in	269
Employee contributions paid in	66
Benefits paid out	0
Net transfers into/out of the Fund	*
Other cashflows (e.g. expenses)	(15)
Expected changes	
Expected investment returns	244
Interest on benefits already accrued	(253)
Accrual of new benefits	(355)
Expected position at 31 March 2023	**(116)**

Table 8: Expected development of funding position between 2020 and 2023 valuations.

* We have insufficient data to accurately value the impact on the liabilities from transfers in/out. This has instead been combined with "Other cashflows"

2.5.2 Impact of actual events

	Surplus/(deficit)
	£m
Expected position at 31 March 2023	**(116)**
Events between 2020 and 2023	
Salary increases greater than expected	(74)
Benefit increases greater than expected	(207)
Early retirement strain (and contributions)	5
Ill health retirements less than expected	10
Early leavers more than expected	1
Pensioner mortality experience	0
Other membership experience	60
Higher than expected investment returns	594
Changes in future expectations	
Investment returns	1,105
Inflation	(346)
Salary increases	6
Longevity	77
Other demographic assumptions	33
Actual position at 31 March 2023	**1,148**

Table 9: Impact of actual events on the funding position at 31 March 2023

Numbers may not sum due to rounding.

3 Sensitivity and risk analysis

Funding benefits that are going to be paid in the future involves risk and uncertainty. The Fund therefore maintains a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

This section discusses some of the most significant sources of funding risk (assumptions, regulatory, administration and governance, and climate change). Further information about the Fund's approach to funding risk management, including monitoring, mitigation, and management, is set out in the Funding Strategy Statement.

The valuation results depend on the actual assumptions made about the future. By their nature, these assumptions are uncertain which means it's important to understand their sensitivity and risk levels.

3.1 Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions, but they are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

3.2 Funding level

3.2.1 Financial assumptions

In Section 2.2 we have already set out how the results vary with the assumed future investment return. Here we consider inflation.

CPI assumption	Surplus/Deficit	Funding level
	£m	%
2.1% pa	1,204	154%
2.3% pa	1,148	151%
2.5% pa	1,090	147%

Table 10: Sensitivity of funding position to inflation assumption

3.2.2 Demographic assumptions

The main area of demographic risk is if people live longer than expected. Table 11 shows the impact of longer-term longevity rates improving at a faster pace (1.75% pa vs 1.5% pa used in the headline results).

Long term rate of improvement	Surplus/Deficit	Funding level
	£m	%
1.50% pa	1,148	151%
1.75% pa	1,141	150%

Table 11: Sensitivity of the funding to longevity assumption

3.3 Other risks

3.3.1 Regulatory, Administration and Governance risks

Potential risks in this area include change in central government legislation, which alters the future cost of the LGPS, and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

McCloud

Benefits accrued by certain members between 2015 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2015 for older members were discriminatory. We've made an allowance for the cost of these potential improvements, based on the guidance issued by the Scottish Public Pensions Agency on 28 April 2023. Details are set out in guide 12 of Hymans Robertson's LGPS 2023 valuation toolkit.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. We have assumed that there will be no changes required to the benefit structure due to the cost cap.

Goodwin

As the remedy to this issue is still uncertain, it is difficult to identify who it would apply to. Given its impact is estimated to be very small for an LGPS fund, we have made no allowance for this change at the 2023 valuation.

GMP Indexation

It is assumed that all increases on GMPs for members reaching State Pension age after 6 April 2016 will be paid for by LGPS employers in the Fund. This is the same approach that was taken for the 2020 valuation.

3.3.2 Post valuation events

Since 31 March 2023, there has been continued volatility in financial markets and rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities.

- The Fund's investment return since 31 March 2023 is estimated to be somewhere between 2% and 5%.
- Liability valuations are likely to be slightly lower now than at 31 March 2023 due to further rises in expected future investment returns and a slight reduction in long-term inflation expectations.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon recent volatility may be more immediately impactful, and the Fund has engaged with these employers as appropriate.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

3.4 Climate change

3.4.1 Background

Climate change is a major source of uncertainty which could affect future investment returns, inflation, and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

More information about the scenarios detailed below can be found in guide 10 of Hymans Robertson's LGPS 2023 valuation toolkit.

3.4.2 Outcome of analysis

The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics.

- **Likelihood of success** – the chance of being fully funded in 18 years' time.
- **Downside risk** – the average worst 5% of funding levels in 18 years' time.

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the 'core' model used when setting the funding and investment strategy). The stress-test results for the Fund are shown in Table 12. All results are in absolute terms.

Scenario	Likelihood of success	Downside risk
In comparison to 'core' modelling results		
Green revolution	1% lower	3% lower
Delayed transition	1% lower	1% higher
Head in the sand	1% lower	5% higher

Table 12: Modelling results with additional climate risk testing

The 'likelihood of success' is worse in the climate scenarios. This is to be expected given that they are purposefully stress tests, and all the scenarios are bad outcomes. The 'downside risk' measure is better in the 'green revolution' scenario and worse in the 'delayed transition' and 'head in the sand' scenarios which highlights the importance of monitoring this risk and how it may evolve.

The climate risk results are not materially different to the 'core' modelling results, and not enough to suggest that the funding strategy is unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

4 Final comments

The Fund's valuation operates within a broader framework, and this document should be considered alongside the following:

- The Funding Strategy Statement, which in particular highlights how different employers in different circumstances have their contributions calculated.
- The Statement of Investment Principles, which sets out the investment strategy for the Fund.
- The general governance of the Fund, including meetings of the Pensions Committee and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc.

4.1 New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

4.2 Cessation and bulk transfers

Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 61 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund.
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement.

should be referred to the Fund Actuary to consider the impact on the Fund.

4.3 Valuation frequency

Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2026 where contribution rates payable from 1 April 2027 will be set.

Robert Bilton FFA   Greer Flanagan FFA

March 2024

For and on behalf of Hymans Robertson LLP

Appendices

Appendix 1: Data

Membership data

A summary of the membership data provided by the Fund for the 2023 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

More information on how we verify the quality of the data used in the valuation has been shared with the Administering Authority in our report ' Data Report for the 2023 Valuation, dated 23 January 2024.

Asset data

To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cash flow data provided by the Fund.

Whole Fund membership data	31 March 2023	31 March 2020
Employee members		
Number	17,335	16,838
Total actual pay (£000)	391,090	330,579
Total accrued pension (£000)	80,014	66,066
Average age (liability weighted)	53.7	51.5
Future working lifetime (years)	8.9	9.3
Deferred pensioners (including undecideds)		
Number	11,483	10,209
Total accrued pension (£000)	23,038	17,743
Average age (liability weighted)	52.5	50.7
Pensioners and dependants		
Number	15,298	13,723
Total pensions in payment (£000)	85,189	68,373
Average age (liability weighted)	68.1	66.9

Table 13: Whole Fund membership data at this valuation compared with the previous valuation

Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future investment return is set out in Table 14.

This information was provided by the Fund.

Asset class	Allocation
UK equities	16.5%
Overseas equities	33.5%
Infrastructure	10.0%
Total growth assets	**60.0%**
Index-linked gilts	7.5%
Fixed interest gifts	7.5%
Total protection assets	**15.0%**
Corporate debt	7.5%
Overseas sovereign debt	6.5%
Private debt	1.0%
Property	10.0%
Total income generating assets	**25.0%**
Total	**100.0%**

Table 14: Investment strategy allocation used for the calculation of employer contribution rates.

Appendix 2: Assumptions

To set and agree assumptions for the valuation, the Fund carried out an in-depth analysis and review in May 2023 with the final set noted by the Pensions Committee at their June 2023 meeting.

Financial assumptions

Setting employer contribution rates

An asset-liability model was used to set employer contributions at the 2023 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long-term inflation. The table below shows the calibration of the ESS at 31 March 2023. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Time period	Percentile	Asset class annualised total returns							Inflation/Yields		
		Cash	All World ex UK Equity	UK Equity	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	Property	Corporate Debt	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th	2.5%	1.1%	1.3%	0.8%	2.4%	1.2%	2.7%	0.9%	-0.3%	2.7%
	50th	3.6%	7.3%	7.5%	2.8%	3.7%	6.2%	4.3%	2.5%	0.9%	4.1%
	84th	4.7%	13.6%	13.5%	5.1%	4.9%	11.5%	5.8%	4.1%	2.2%	5.9%
20 years	16th	2.3%	2.8%	3.0%	1.0%	3.3%	2.7%	3.7%	0.7%	-0.5%	1.4%
	50th	3.7%	7.4%	7.5%	2.7%	4.1%	6.4%	4.7%	2.3%	1.3%	3.4%
	84th	5.4%	12.2%	12.0%	4.5%	4.8%	10.3%	5.8%	3.9%	2.9%	5.9%
40 years	16th	1.8%	3.7%	3.9%	1.0%	2.9%	3.2%	3.4%	0.6%	-0.6%	1.2%
	50th	3.5%	7.2%	7.4%	2.7%	3.7%	6.2%	4.4%	2.0%	1.3%	3.3%
	84th	5.7%	10.9%	10.9%	4.6%	4.9%	9.5%	5.8%	3.5%	3.2%	6.1%
	Volatility (5yr)	2%	18%	18%	7%	5%	15%	8%	3%	-	-

Table 15: ESS individual asset class return distributions at 31 March 2023

Calculating the funding level

Table 16 summarises the assumptions used to calculate the funding level at 31 March 2023, along with a comparison at the last valuation.

Assumption	31 March 2023	Required for	31 March 2020
Discount rate	5.5% pa	To place a 'today's money' value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 70% likelihood of achieving a return that is at least equal the discount rate.	3.1% pa
Benefit increases/CARE revaluation	2.3% pa	To determine the size of future benefit payments.	1.7% pa
Salary increases	2.8% pa*	To determine the size of future final-salary linked benefit payments.	2.2% pa*

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation

*plus a promotional salary scale

Demographic assumptions

The same demographic assumptions are used to set contribution rates and assess the current funding level.

Longevity

	31 March 2023	31 March 2020
Baseline assumptions	VitaCurves based on member-level lifestyle factors	VitaCurves based on member-level lifestyle factors
Future improvements	**CMI 2022 model** Initial addition = **0.25% (both Male and Female)** Smoothing factor = **7.0** Weighting = **0%** (2020 & 2021 data), **25%** (2022 data) **1.5% pa** long-term rate	**CMI 2019 model** Initial addition = **0.5% (both Male and Female)** Smoothing factor = **7.0** **1.5% pa** long-term rate of improvement

Table 17: Summary of longevity assumptions at this valuation compared with the previous valuation

Other demographic assumptions

Death in service	See sample rates in Table 19
Retirements in ill health	See sample rates in Table 19
Withdrawals	See sample rates in Table 19
Promotional salary increases	See sample rates in Table 19
Commutation	70% of future retirements elect to exchange pension for additional tax-free cash up to HMRC limits
50:50 option	0.2% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Proportion married	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 85% for males and 60% for females. The dependant of a male member is assumed to be 2 years younger than him and the dependant of a female member is assumed to be 3.5 years older than her.

Table 18: Summary of other demographic assumptions

Sample rates for demographic assumptions

Males

Age	Salary scale	Death before retirement	Withdrawals		Ill health Tier 1		Ill health Tier 1	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	270.14	434.15	0	0	0	0
25	117	0.21	178.44	286.77	0.11	0.02	0.13	0.02
30	131	0.26	126.57	203.42	0.21	0.03	0.23	0.03
35	144	0.30	98.87	158.90	0.41	0.14	0.46	0.15
40	154	0.51	79.56	127.86	0.62	0.26	0.69	0.24
45	164	0.86	46.50	104.62	0.99	0.51	1.09	0.49
50	174	1.37	36.02	81.04	1.86	1.31	2.59	1.45
55	179	2.15	34.60	77.85	5.83	4.52	4.67	3.11
60	184	3.86	30.82	69.33	9.91	6.97	3.87	2.65
65	185	6.44	0	0	18.92	13.49	0	0

Females

Age	Salary scale	Death before retirement	Withdrawals		Ill health Tier 1		Ill health Tier 1	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.11	359.79	338.79	0	0	0	0
25	117	0.11	242.03	227.90	0.16	0.13	0.09	0.10
30	131	0.16	202.83	190.99	0.21	0.18	0.12	0.13
35	144	0.27	124.95	164.73	0.41	0.34	0.24	0.25
40	154	0.44	103.93	137.00	0.61	0.51	0.36	0.37
45	164	0.71	85.55	112.78	0.82	0.68	0.48	0.50
50	174	1.04	65.19	85.94	1.50	1.23	1.11	1.13
55	179	1.37	60.98	80.39	5.47	4.43	2.32	2.35
60	184	1.75	49.03	64.64	11.52	9.30	2.38	2.40
65	185	2.25	0	0	20.73	16.76	0	0

Table 19: Sample rates of male and female demographic assumptions.

Figures are incidence rates per 1,000 members except salary scale.
FT and PT denoted full-time and part-time members respectively.

Appendix 3: Reliances & limitations

We have been commissioned by Fife Council ('the Administering Authority') to carry out a full actuarial valuation of Fife PensionThe Fund ('the Fund') at 31 March 2023, as required under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 ('the Regulations').

This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2023 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

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This summary report is the culmination of other communications in relation to the valuation, in particular:

- our 2023 valuation toolkit which sets out the methodology used when reviewing funding plans
- our paper dated 4 September 2023 which discusses the funding strategy for the Fund's stabilised employers
- our paper dated 31 May 2023 which discusses the valuation assumptions.
- our initial results report dated 7 September 2023 which outlines the whole Fund results and inter-valuation experience
- our data report dated 23 January 2024 which summarises the data used for the valuation, the approach to ensuring it is fit for purpose and any adjustments made to it during the course of the valuation
- the Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members.

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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Appendix 4: Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Asset-liability modelling	An approach to modelling and understanding risk for a pension fund. The assets and liabilities are projected forwards into the future under many different future scenarios of inflation, investment returns and interest rates. The future scenarios are then analysed to understand the risk associated with a particular combination of contribution rates and investment strategy. Different combinations of contribution rates and/or investment strategies may be tested.
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts who Hymans Roberston partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insights on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Deferred pensioner	A former employee who has left employment (or opted out of the pension fund) but is not yet in receipt of their benefits from the fund.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.

Term	Explanation
Discount rate	An assumption for the annual rate of future investment return. Used to place a single 'today's money' value on a stream of future payments.
Employee members	Members who are currently employed by employers who participate in the Fund and are paying contributions into the Fund.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.
Funding position	The extent to which the assets held by the Fund at 31 March 2023 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically, we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Pensioner	A former employee who is in receipt of their benefits from the fund. This category includes eligible dependants of the former employee.
Primary rate	The estimated cost of future benefits, expressed in percentage of pay terms. The primary rate will include an allowance to cover the Fund's expenses.

Term	Explanation
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence level of more than 50%. All other assumptions aim to be best estimate.
Prudence level	A percentage indicating the likelihood that the assumed rate of investment return will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the assumed rate of investment return.
Secondary rate	An adjustment to the primary rate, generally to reflect costs associated with benefits that have already been earned up to the valuation date. This may be expressed as a percentage of pay and/or monetary amount.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire but are no longer earning new benefits.

Appendix 5: Rates and Adjustments Certificate

In accordance with Regulation 60(4) of the Regulations, we have assessed the contributions that should be paid into the Fund by participating employers for the period 1 April 2024 to 31 March 2027 to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in this Rates and Adjustments Certificate are detailed in the Funding Strategy Statement dated March 2024 and in Appendix 2 of the report on the actuarial valuation dated March 2024. These assumptions underpin our estimate of the number of members who will become entitled to a payment of pensions under the provisions of the LGPS and the amount of liabilities arising in respect of such members.

The table below summarises the whole Fund primary and secondary contribution rates for the period 1 April 2024 to 31 March 2027. The primary rate is the payroll weighted average of the underlying individual employer primary rates and the secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the LGPS regulations and CIPFA guidance. The secondary rate has been shown both as a monetary amount and an equivalent percentage of the projected pensionable pay.

Robert Bilton FFA | Greer Flanagan FFA
March 2024
For and on behalf of Hymans Robertson LLP

This valuation (31 March 2023)		
Primary rate	22.1% of pay	
Secondary rate	**Monetary amount**	**Equivalent to % of payroll**
2024/25	-£3,570,000	-0.8%
2025/26	-£3,670,000	-0.8%
2026/27	-£3,774,000	-0.8%

Table 20: Whole fund primary and secondary contribution rates from 1 April 2024 to 31 March 2027

The required minimum contribution rates for each employer in the Fund are set out in the remainder of this certificate.

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay)			Total contributions (Primary rate plus secondary rate)			Notes
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27	
	Fife Council and other tax raising associated bodies								
20	Fife Council	22.1%	-0.6%	-0.6%	-0.6%	21.5%	21.5%	21.5%	
53	Scottish Police Authority	22.4%	-0.3%	-0.3%	-0.3%	22.1%	22.1%	22.1%	
54	Scottish Fire & Rescue Service	22.6%	3.7%	3.7%	3.7%	26.3%	26.3%	26.3%	
46	Sports & Leisure	21.4%	-5.9%	-5.9%	-5.9%	15.5%	15.5%	15.5%	
47	Fife Countryside & Coast Trust	22.2%	-3.4%	-3.4%	-3.4%	18.8%	18.8%	18.8%	
50	Golf Trust	21.3%	-3.2%	-3.2%	-3.2%	18.1%	18.1%	18.1%	
51	Fife Cultural Trust	22.6%	-3.1%	-3.1%	-3.1%	19.5%	19.5%	19.5%	
57	Fife Resource Solutions	22.4%	-3.1%	-3.1%	-3.1%	19.3%	19.3%	19.3%	
	Further Education Colleges								
55	Fife College	21.9%	-1.5%	-1.5%	-1.5%	20.4%	20.4%	20.4%	
52	Scotland's Rural College	22.3%	-5.1%	-5.1%	-5.1%	17.2%	17.2%	17.2%	
Employer code	**Employer name**	**Primary rate (% of pay)**	**Secondary rate (% of pay)**			**Total contributions (Primary rate plus secondary rate)**			**Notes**

			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
	Transferee Admission Bodies							
42	FES Forth & Oban	20.8%	0%	0%	0%	20.8%	20.8%	20.8%
62	Sodexo	28.9%	-28.9%	-28.9%	-28.9%	0.0%	0.0%	0.0%
	Community Admission Bodies							
27	Citizens Advice & Rights Fife	27.4%	-5.7%	-5.7%	-5.7%	21.7%	21.7%	21.7%
29	Homestart Levenmouth	31.0%	-11.7%	-11.7%	-11.7%	19.3%	19.3%	19.3%
32	Business Gateway Fife	22.1%	-0.6%	-0.6%	-0.6%	21.5%	21.5%	21.5%
35	Drug & Alcohol Project	27.8%	-5.9%	-5.9%	-5.9%	21.9%	21.9%	21.9%
36	Fife Intensive Rehabilitation & Substance Misuse Team	38.8%	-38.8%	-38.8%	-38.8%	0.0%	0.0%	0.0%
37	The Clued Up Project	28.9%	-28.9%	-28.9%	-28.9%	0.0%	0.0%	0.0%

Notes to the Rates & Adjustments Certificate

- Contributions expressed as a percentage of payroll should be paid into the Fund at a frequency in accordance with the requirements of the Regulations.
- Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.
- Payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.
- The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund Actuary.
- The monetary contributions set out in the certificate above can be prepaid in advance with appropriate adjustments for interest as and when agreed with the Administering Authority. Under these circumstances a revised Rates and Adjustments certificate may be issued reflecting any advance payment.

Appendix 6: Section 13 dashboard

Metric	Unit	2023 Valuation
2023 funding position – local funding basis		
Funding level (assets/liabilities)	%	151%
Funding level (change since previous valuation)	%	54% increase
Asset value used at the valuation	£m	3,420
Value of liabilities (including McCloud liability)	£m	2,272
Surplus (deficit)	£m	1,148
Discount rate (past service)	% pa	5.5%
Discount rate (future service)	% pa	Past service and future service are consistently valued with the same underlying assumptions, methodologies, and models regarding future expected levels of inflation, interest rates and investment returns.
Assumed pension increase (CPI)	% pa	2.3%
Method of derivation of discount rate, plus any changes since previous valuation		There is a 70% likelihood that the Fund's assets will return at least 5.5% pa over the 20 years following the 2023 valuation date. This is the same methodology and likelihood used for the 2020 valuation.

Metric	Unit	2023 Valuation
Assumed life expectancy at age 65		
Life expectancy for current pensioners – men age 65	Years	20.1
Life expectancy for current pensioners – women age 65	Years	22.9
Life expectancy for future pensioners – men age 45	Years	20.7
Life expectancy for future pensioners – women age 45	Years	24.6
Past service funding position – SAB basis (for comparison purposes only)		
Market value of assets	£m	3,420
Value of liabilities	£m	2,725
Funding level on SAB basis (assets/liabilities)	%	126%
Funding level on SAB basis (change since last valuation)	%	11% increase

Metric	Unit	2023 Valuation	2020 Valuation
Contribution rates payable			
Primary contribution rate	% of pay	22.1%	25.6%
Secondary contribution rate (cash amounts in each year in line with CIPFA guidance)			
1st year of rates and adjustments certificate	£m	-3.570	-3.550
2nd year of rates and adjustments certificate	£m	-3.670	-3.454
3rd year of rates and adjustments certificate	£m	-3.774	-3.339
Giving total expected contributions			
1st year (£ figure based on assumed payroll)	£m	86.942	84.551
2nd year (£ figure based on assumed payroll)	£m	89.387	86.612
3rd year (£ figure based on assumed payroll)	£m	91.900	88.737
Assumed payroll (cash amounts in each year)			
1st year rates and adjustments certificate	£m	408.664	345.494
2nd year rates and adjustments certificate	£m	420.154	353.202
3rd year rates and adjustments certificate	£m	431.966	361.081
Three-year average	% of pay	21.3%	24.6%
Average employee contribution	% of pay	5.9%	6.0%
Employee contribution rate (£ figure based on assumed payroll of £408.664m)	£m pa	24.4	20.7

Metric	Unit	2023 Valuation	2020 Valuation
Deficit recovery and surplus spending plan			
Latest deficit recovery period end date, where this methodology is used by the fund's actuarial advisor.	Year	Methodology not used	Methodology not used
Earliest surplus spreading period end date, where this methodology is used by the fund's actuarial advisor.	Year	Methodology not used	Methodology not used
The time horizon end date, where this methodology is used by the fund's actuarial advisor	Year	2041	2038
The funding plan's likelihood of success, where this methodology is used by the fund's actuarial advisor.	%	70%	70%
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	%	0%	0%
Additional information			
Percentage of total liabilities that are in respect of Tier 3 employers	%	2%	6%
Included climate change analysis/comments in the 2023 valuation report		Yes	Not applicable
Value of McCloud liability in the 2023 valuation report (on local funding basis)	£m	6	Not applicable

28 March 2024

Agenda Item No. 8

Fife Pension Fund Investment Strategy

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to provide the conclusions of the review of the long-term investment strategy of the Fife Pension Fund (the Fund), and the strategic asset allocation (SAA) of the Fund. It also details the recommended strategy following review and input from the Fund's investment advisers with the recommended SAA having minor amendments compared with the existing strategy as well as name changes for two policy groups.

Recommendation(s)

It is recommended that the Committee:-

1. agree amendments to the investment strategy as outlined in paragraphs 2.21 to 2.25; and
2. subject to approval of the amendments above, agree to update the Fund's Statement of Investment Principles (SIP) to reflect the agreed changes to the strategy (Appendix 1)

Resource Implications

The investment strategy has a significant impact on the investment returns, risk and volatility of the pension fund and hence impacts on future funding levels and employers' contribution rates.

Legal & Risk Implications

Investment strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The proposed strategy for the Fund maintains the current level of investment risk.

Impact Assessment

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

Consultation

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 Background

1.1 The Fund undertakes an in-depth review of its investment strategy in conjunction with the completion of its triennial valuation. This enables consideration of the actuary's updated assumptions and any changes to contribution rates. The Committee is also considering the completed actuarial valuation dated 31 March 2023 as a separate report on this agenda.

1.2 The investment strategy of a pension fund has a significant impact on its investment performance, as well as the funding level and employer contribution rates. Setting strategic asset allocation (SAA) is therefore a major decision for the Pensions Committee.

1.3 The review has been undertaken in collaboration with Lothian and Falkirk Pension Funds, working with Investment Advisors on the Joint Investment Forum (JIF) and also with Hymans Robertson. Initial results were presented and discussed at the JIF on 8 September 2023. This was followed by a joint training session for Committees and Boards of the three funds on 15 September 2023 to provide information on the approach of Hymans Robertson to the asset liability modelling being undertaken. Additional results from Hymans Robertson were considered at the December 2023 JIF, with a subsequent training session for the three funds on 6 February 2024 to provide background information on policy groups, asset liability modelling and to discuss the review. Materials and a recording of the session have been made available to those Committee and Board members who could not attend on the day.

1.4 The Pensions Committee of each fund is responsible for determining its own investment strategy and monitoring implementation of that strategy and its success. Given that the funding position and cash flow outlook of each fund is different, the recommendations relating to the investment strategy of each fund are specific to each individual fund.

1.5 Implementation of the investment strategy is delegated to the Executive of Director Finance and Corporate Services who delegates this to the Head of Finance taking proper advice from the JIF and other investment advisers. Fife's officers implement and monitor strategy in collaboration with Lothian Pension Fund and report performance to Committee on a quarterly basis. Officers meet with two external, independent JIF advisers quarterly.

1.6 The Fund constituted the JIF to provide investment advice. Its two external independent advisers, Kirstie MacGillivray and Stan Pearson, have been supported by Lothian's internal investment team and Hymans Robertson in this investment strategy review. Hymans Robertson undertook asset liability modelling (ALM), which tested potential investment strategies, and quantified the probabilities of achieving objectives.

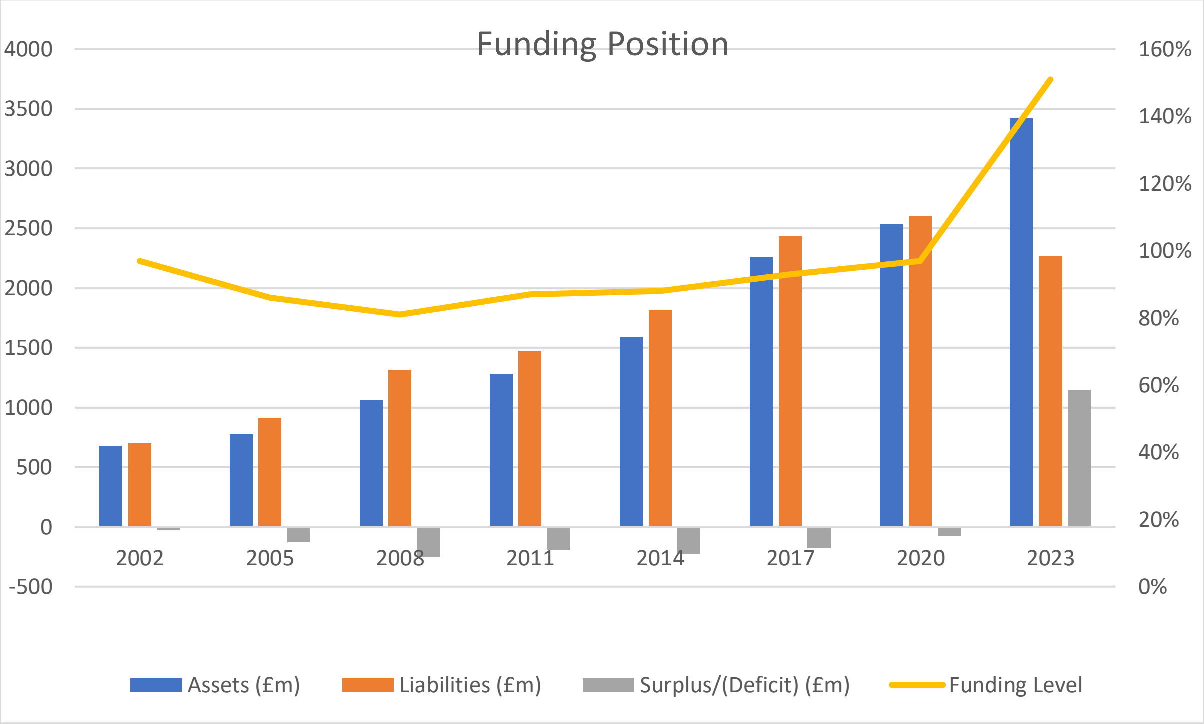
2. Investment Strategy Review

Funding Position

2.1 The investment strategy (or strategic asset allocation, SAA) of a pension fund has a significant impact on its investment performance, funding level and employer contribution rates. Setting SAA is therefore a major decision for the fund.

2.2 The chart below shows the actuary's assessment of the funding position over the last several actuarial valuations. It is worth noting that when funding levels in Fife fell around 2008, employers' contributions began to rise as a result. This SAA review has been conducted alongside the 2023 actuarial valuation.

Graph 1



2.3 The actuary estimates that the funding level was 151% at 31 March 2023, a significant improvement on 97% as of 31 March 2020. Graph 1 shows that the improvement in funding level has been driven by both an increase in the value of assets (due to investment returns) and a reduction in the value of liabilities (due to higher interest rates).

2.4 Table 1 shows the cashflows into and out of the Fund to 31 March 2023. It illustrates that, net cashflow from dealing with members has remained positive over this period. Income from investments has averaged £30m over the last five years, which means that the fund has remained cashflow positive on an overall basis. Future cash flow modelling has been undertaken and indicates that, in the absence of investment income, the Fund is likely to be cash flow negative by 2030 after recognising the pension increases of 10.1% (2023) and 6.7% (2024) and inflation thereafter in line with forecasts on future inflation. The cashflow position is sensitive to inflation, future contribution rates and active membership numbers. Changes in the assumptions associated with these factors may bring the point of cash flow negativity forward. The cash flow position is closely monitored, and it is noted that the income from investments has been increasing over the last two years.

Table 1

Cashflow Table (Net withdrawals / additions from dealing with members)						
Cashflow table	**2017/18**	**2018/19**	**2019/20**	**2020/21***	**2021/22**	**2022/23**
Income (£m)	100	100	102	108	119	120
Expenditure (£m)	84	87	90	94	98	102
Net Cash flow (£m)	16	13	12	14	21	18

*Includes a one-off transfer out for Visit Scotland of £4.722m

Policy Groups

2.5 To support effective strategy determination, the JIF continues to recommend that the Committee defines the Fund's high-level SAA in terms of five policy groups. These classify assets into categories with similar risk and return characteristics, which are not completely correlated with one another. The weighting of these groups in a portfolio is the key determinant of risk and return. Table 2 below shows the Policy Groups in descending order of return and risk.

2.6 The JIF has recommended minor amendments to the existing five policy groups which classify the vast array of investment choices into a manageable number of investment groups. The proposed policy groups are shown in Table 2.

2.7 The name of the LDI Policy Group has been amended to Sovereigns to reflect the fact that this policy group may invest in high quality sovereign bonds (e.g. UK and US government bonds) which offer diversification to the equity policy group. These assets provide interest rate and potentially inflation exposure that offsets similar exposures within the fund's liabilities.

2.8 The name of the Non-Gilt Debt policy group has been changed to Credit to reflect the fact that this policy group has exposure to debt issued by non-sovereign issuers (e.g. corporates) that typically offer a higher rate of return (via a credit spread) than sovereign government bonds. As a result of the changes to the names of the policy groups, there will be a small administrative change whereby investments in US TIPS will move from Credit to Sovereigns. Northern Trust will be notified and they will update the policy groups and subsequent reporting. No change to the benchmarks is being recommended.

Table 2

Policy Group	Objective	Permitted Assets
Equities	The principal driver of the Fund's growth and, in the long term, expected to outperform liabilities, albeit with periods of volatility.	Listed equities; private equities; forward currency contracts; equity futures.
Real Assets	Positive real returns with an income stream, in some way, linked to inflation. Likely to deliver some diversification from equity returns.	Property; infrastructure; timberland; agriculture; commodities.
Credit (formerly Non-Gilt Debt)	Assets likely to offer diversification from equity returns, strategic funding level protection and/or a superior yield to that available from, and where returns may have a positive correlation to, sovereign bonds.	Investment grade bonds; high yield bonds; loans; private credit; emerging market bonds.
Sovereigns (formerly LDI)	Assets likely to offer diversification from equity returns and strategic funding level protection by having interest rate and potentially inflation exposure that offsets exposures of the liabilities and so reduces funding level variability.	Index-linked gilts; nominal gilts; gilt futures; overseas sovereign bonds.
Cash	Liquidity function mostly avoiding credit and duration risks.	UK Treasury assets; overseas Treasury assets; local authority loans; bank or building society deposits (all short term).

2.9 Under the governance structure of the Fund, the implementation of the investment strategy within these Policy Groups is delegated by the Pensions Committee to nominated officers with advice from the JIF. The proposed changes to the names of Policy Groups are the same for Falkirk, Fife and Lothian funds to continue facilitation of joint working by using consistent terminology, controls and constraints to continue to deliver efficiencies.

2.10 The modelling results below from Hymans Robertson indicate that the level of equities is by far the key determinant of investment risk and return. Variation in the types of investment managers within each Policy Group is typically less significant to the overall risk and return than strategic Policy Group allocations over the long term.

Asset Liability Modelling

2.11 An Asset Liability Modelling (ALM) is a tool which projects how the Fund's assets and liabilities might perform in the long-term. The primary aim is to indicate the degree of uncertainty associated with a particular strategy; the ALM is not a forecasting tool. It describes how likely different investment strategies are to deliver returns that achieve the Fund's objectives – paying pensions as they fall due. Investment strategies with higher expected returns will typically be accompanied by greater variability in funding level. Such strategies may lead to reduced stability for employers contributions and this heightens the risk that employers contributions become volatile and the need for contributions to rise if the investments experience significant downside movements. Stability of contribution rates is valued highly by employers.

2.12 ALMs include many assumptions about how the economy and investment markets might change in the future, highlighting the uncertainty in projecting future outcomes. Hymans Robertson has tested the current and potential SAA, which are expected to deliver sufficient returns with a high probability of success over a 18-year timeframe (2 years on from the past review conducted as of March 2021). There are, however, a wide range of possible outcomes, which reflects the need to generate returns in excess of the return generated by gilts, the matching asset for a pension fund. There is less certainty associated with the future returns from other financial assets.

2.13 The assumption for future gilt yields is one of the most critical inputs to the model. The level of gilt yields does not impact the actual pensions which will fall due. But it greatly affects the current value of these liabilities calculated by the actuary – as discounted by this rate. The higher the assumed discount rate (or level of gilt yields), the lower the current value of liabilities, as calculated by the actuary's model.

2.14 Hymans Robertson's asset liability model assumes, on average, that nominal gilts return c.4.1% p.a. over the next 20 years, with nominal 17-year yields falling from 3.9% (at 31 March 2023) to 3.4% at the end of the projection period. This is a major assumption because nominal 15-year gilt yields as of 13 February 2024 are c.4.4% and expected to decline. Nominal 30-year gilt yields are currently c.4.6%, which is consistent with 15-year gilt yields in 15 years' time rising to 4.8% pa. The difference between the Hymans Robertson model calibrated at the valuation date and current market levels illustrates the limitation of single point in time valuations and supports the need for a long-term approach and moderate changes.

2.15 The ALM helps to demonstrate, on its assumptions, whether the SAA is likely to deliver the funding objectives, the associated risks and the impact of amending the SAA. However, model assumptions need to be considered when interpreting the results.

The Results

2.16 Results from Hymans showed that the strong funding position provides a high degree of flexibility in terms of adjusting the SAA and/or the approach to contributions, due to the large past service liability surplus.

2.17 However, the JIF advisers and Hymans Robertson have highlighted that the funding position can vary materially between measurement dates because of changes in market conditions, with the results being particularly sensitive to gilt yields and the implied future expected returns from asset classes and policy groups.

2.18 As part of the review, Hymans Robertson state that “a key consideration is therefore to set an investment strategy and contribution rate that is sustainable in the long term”.

2.19 They suggest that a suitable SAA (on a sustainable basis) is one that meets future service accrual only, at an affordable level of contributions, without relying on the past service funding surplus. In other words, not relying on the past surplus to fund future liabilities to any great degree.

2.20 On this basis, the Fund’s actuary has confirmed that the current SAA (50% equity weight) is consistent with a long term 22.1% contribution rate (excluding 0.6% allowance for administration expenses). Because the assets to pay benefits can only be generated by a combination of investment returns and contributions, adopting a SAA with a lower expected investment return would entail higher sustainable contributions, and vice versa.

Recommended Strategy

2.21 The proposed SAA for the Fund is presented in Table 3 below as recommended by the JIF advisers taking the ALM into consideration. It is based on long term expectations (18+ years) that the asset mix will generate returns comfortably in excess of liabilities.

2.22 The proposed strategy considers the expected reduction in contributions resulting from the actuarial valuation. It retains the same level of risk as the current SAA and maintains the long-term return requirements of the Fund.

2.23 There are minimal changes to the strategy with a modest 2% allocation to the Cash policy which recognises the operational cash requirements of the Fund. This has been achieved by a slight reduction in the allocation to the Credit policy group.

2.24 The permitted ranges are the constraints within which the nominated officers can implement strategy under delegated authority without referral to the Committee. They are wide enough to avoid unnecessary and potentially costly rebalancing under normal financial conditions, but to enable prompt action in fast moving markets. It is proposed that these remain the same.

Table 3

Policy Group (%)	**Current Strategy**	**Proposed Strategy**	**Current Permitted Ranges**	**Proposed Permitted Ranges**
Equities	50	50	40 -60	40 -60
Real Assets	20	20	10 - 30	10 - 30
Credit	15	13	5 - 25	5 - 25
Sovereigns	15	15	5 - 25	5 - 25
Cash	0	2	0 - 15	0 - 15
Total	**100**	**100**		

2.25 Officers will continue to monitor the funding level with advice and input from the JIF advisers and adjust Policy Groups exposures within the constraints of the permitted ranges where required or to make tactical investment decisions. They will continue to review regular reporting on strategy implementation at the quarterly JIF meeting and refer to Committee for direction should there be a recommendation to operate out with the permitted ranges or to adjust the strategic weights. The Committee will continue to receive updates on asset allocation and performance.

Updates to the Statement of Investment Principles

2.26 Subject to the above changes being approved, Committee is also asked to approve updates to the Fund's Statement of Investment Principles (SIP) to reflect the agreed changes. These changes are provided in separate Appendix 1, which shows:

- Changes to the policy group names and underlying assets classes (section 5 of the SIP), and
- Changes to the target allocation (Appendix A of the SIP)

2.27 The proposed updates to the SIP only include those changes approved as part of this review. A full review of the entire SIP document will be included for consideration at the June Committee.

3.0 Conclusions

3.1 A review of the Fund's investment strategy has been undertaken, taking investment advice from the Joint Investment Forum (JIF) and Hymans Robertson. Two training sessions have been held. The first on 15th September detailing the review process and what to expect from the work done by Hymans Robertson. The second was held on 6th February 2024 and was attended by various members of the Committee and Board. Full materials (slides and recording) have also been shared to ensure that all Committee and Board members had the opportunity to access the preparatory training event.

3.2 This report provides the recommendations following the output of the investment strategy review with the proposed strategy being similar to the Fund's current asset allocation but with minor amendments to the existing strategy being recommended.

3.3 For the Fife Fund, following the completion of the exercise, it is recommended that the current strategy be amended slightly from 50% equities, 20% Real Assets, 15% Credit and 15% Sovereigns be slightly altered to 50% equities, 20% Real Assets, 13% Credit, 15% Sovereigns and 2% Cash.

List of Appendices

Appendix 1 SIP proposed changes

Background Papers

Investment Strategy Training slides – 15th September 2023
Investment Strategy Training slides – 6th February 2024

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Extract from 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~~ 28 March 2024. 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.

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.
- **Sovereigns ~~Liability Driven Investment (LDI)~~** are ~~gilts~~ bonds, which are debt instruments issued by the ~~UK~~ sovereign governments (such as the UK and US). Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some bonds provide interest payments and capital repayment value that is directly linked to price inflation (the Retail Price Index (RPI) in the UK). 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 (such as the US) also issue this type of debt, but in different currencies tied to price inflation in their own countries.
- **Credit ~~Non-Gilt Debt~~** instruments are issued by a range of non-sovereign 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.

Appendix A – Investment Strategy (~~26 September 2022)~~ 28 March 2024

FIFE PENSION FUND: INVESTMENT STRATEGY

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

Policy Group	Current ~~Interim~~ Strategy (~~June 2021~~ September 2022)	Proposed ~~Final~~ Strategy	Permitted Range
Equities	50%	50%	40% - 60%
Real Assets	20%	20%	10% - 30%
~~Non-Gilt Debt~~ Credit	15%	13%	5% - 25%
~~LDI (Gilts~~) Sovereign	15%	15%	5% - 25%
Cash	0%	2%	0% - 15%
Total	**100%**	**100%**	**100%**

28th March 2024

Agenda Item No. 9

Fife Pension Fund Business Plan and Budget 2024-25

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

This report provides details of the Business Plan 2024-25 for Fife Pension Fund. The document is based on the format of last year's business plan with some additional contextual information added.

Recommendation(s)

It is recommended that the committee:-

1. consider and comment on the Business Plan; and

2. approve the Business Plan 2024-25, including the Indicative Budget 2024-25 detailed in Appendix 2 of the document.

Resource Implications

There are no direct resource implications identified at this stage. The Business Plan does include the Budget which, for some items, is based on previous years costs and trend analysis as some items are difficult to predict. In terms of the Administration element of the budget this is based on current staffing levels and may need revised dependent on future changes in staffing requirements or team structure.

Legal & Risk Implications

There are no legal or risk implications rising directly from this report.

Impact Assessment

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

Consultation

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

1.1 The preparation of a Business Plan was recommended during an internal audit report as good practice. Having been introduced for the first time in 2023-24, the Business Plan sets out the aims and objectives of the Fund as well as providing details of the resources required and the key activities involved in administration of the fund.

1.2 Throughout 2023-24, the quarterly reports presented to committee have been based on the business plan and have evolved over time to provide a more comprehensive update on the activities being carried. It is intended that the reporting for 2024-25 continues in this manner.

2.0 Business Plan

2.1 Producing a business plan is good practice and a way of communicating the day-to-day business of the Fund as well as setting out the proposed improvements and development work being undertaken.

2.2 The format of the Business Plan is based on the Pensions Regulator's sample business plan and informs the basis for various reports presented to the Committee throughout the year. This means that reports on the quarterly performance reporting, update on team activity and budget monitoring are consistent with the approved business plan. Further, the annual Business Plan update report forms part of the Annual Reports and Accounts and provides a summary of the activities completed in the year and again will be consistent with and measured against the business plan.

2.4 Projected and final outturn information will also be presented to Committee and measured against the indicative budget in line with the reporting framework.

2.5 As the second Business plan developed for the Fund it is intended that this will be used as a basis for developing future business plan and the process will evolve over time. It is intended that documents will become streamlined and that various aspects of reporting will be aligned to avoid duplication where possible.

2.6 The indicative budget reflects the proposed revised employers' contribution rates per the valuation and are subject to approval of the rates and adjustment certificate elsewhere on this agenda. The budget also reflects the increased level of benefits payable. The Administration budget is reflective of the staff structure currently in place. The level of resource employed is being reviewed and may lead to a requirement to increase the Administration budget mid-year.

2.7 Given the nature of expenditure and income, some budgets are estimated based on previous years' trends and the budget should be treated as indicative.

3.0 Conclusion

3.1 The Business Plan 2024-25 provides a consolidated statement of the development work and day-to-day business of the Pension Fund and the resources required to deliver that business. The strategy is an important part of the Fund's governance arrangements.

List of Appendices

Appendix 1 – Business Plan 2024-25

Background Papers

None

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Fife Pension Fund – Business Plan 2024-25

Introduction

Welcome to the Business Plan prepared for Fife Pension Fund (The Fund), which is managed and administered by Fife Council. The Business Plan covers the period 2024-25 and will be formally reviewed and agreed on an annual basis.

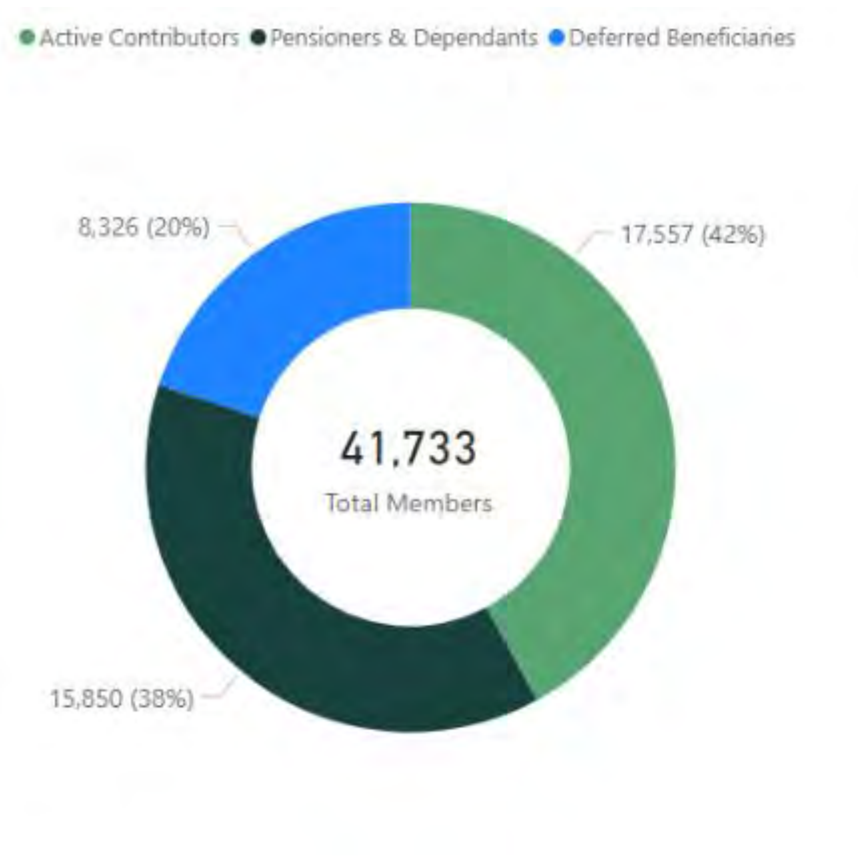
Producing this Business Plan is good practice and a way of communicating the day-to-day business of the Fund as well as setting out the proposed improvements and longer-term areas of work.

The Business Plan sets out the business of the Fund and throughout the year quarterly performance reporting will provide an update on team performance and progress and budget monitoring will link to the plan. Finally, progress on the key deliverables will be included in the Annual Report and Accounts will provide a summary of activities completed in the year and again build on the business plan.

Fife Pension Fund

Fife Pension Fund is a £3.6bn Local Government Pension Scheme (LGPS), which provides death and retirement benefits for local government employees in Fife and employees of other scheduled and admitted bodies who are employers in the Fund.

Total fund membership, at 31 December 2023 was approximately **41,500** with around **17,500** active members from **20** scheme employers and around **24,000** retired, survivor and other members.



Objectives

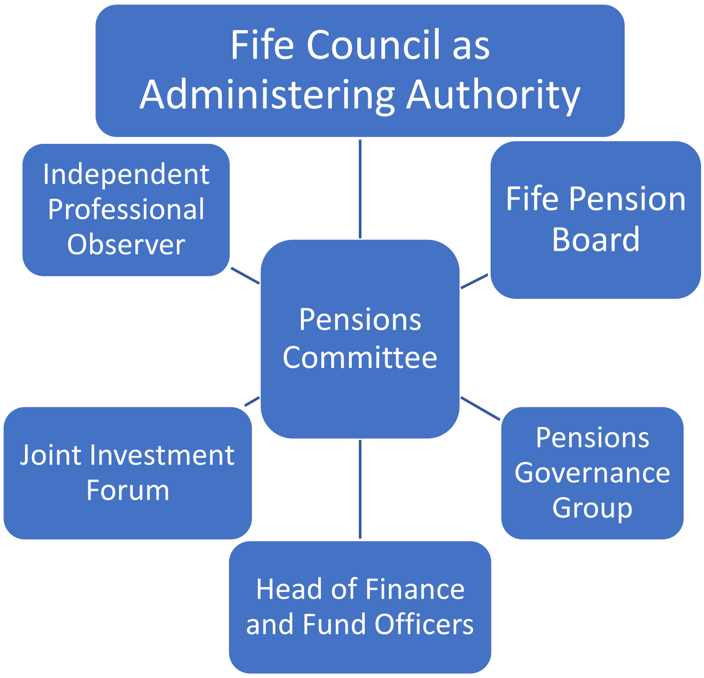
The **primary objective** of The Fund is to ensure that there are sufficient funds available to meet all pensions and lump sum liabilities as they fall due.

Overall, the **Fund's objectives** are to generate sufficient long terms 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. Key strategies and policy documents which guide the management of the Fund are listed in Appendix 1 and can be found on the website, [Resources | Fife Pension Fund]

Governance and Compliance

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 the administration of scheme benefits.

How Fife Council carries out these functions is illustrated below:



The Pensions Committee's principal aim is to carry out the functions of Fife Council as the Scheme Manager and Administering Authority for the Fife Pension Fund in accordance with the LGPS regulations and any other relevant legislation.

The Committee delegates several functions to the Head of Finance and Fund Officers.

In its role as the Administering Authority, Fife Council owes fiduciary duties to the employers and members of the Fife Pension Fund and must not compromise this with its own interests. Consequently, this fiduciary duty is a delegated responsibility of the Pensions Committee, and its members must not compromise this with their own individual interests.

In addition to the Pensions Committee, Fife Pension Board is in place to assist in:

- securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the Scheme and by the Pensions Regulator; and

- ensuring the effective and efficient governance and administration of the Fife Pension Fund.

The Committee and the Board are supported by an Independent Professional Observer (IPO) who was appointed to assist both groups in discharging their responsibility to the Pension Fund.

The Pensions Governance Group (PGG) is an officers' group chaired by the Head of Finance and is responsible for, amongst other things, ensuring the roles and responsibilities are allocated and documented in line with the Pensions Regulator General Code of Practice.

Fife Pension Fund works in collaboration with City of Edinburgh council for the provision of investment advice from its arms-length organisation LPFI limited. Officers from Fife Pension Fund participate in the Joint Investment Forum (JIF), which is a forum of independent advisers, advisers from LPFI Limited and Fund officers. The JIF meets on a quarterly basis.

Governance

In respect of Governance arrangements for the Fund, the following activities are undertaken:

- Setting the agenda, reporting and presenting to the Pensions Committee and Fife Pension Board
- Managing risks and internal controls
- Maintaining complete and accurate records to ensure benefits are paid correctly
- Implementing and monitoring the achievement of other areas of governance such as the Training Policy, Risk Management Policy, Breaches Policy and The Pension Regulator's new General Code of Practice and managing conflicts of interest
- Procurement of and payment for advisers and other services
- Assisting internal and external audit in their role
- Replying to Freedom of Information requests in adherence with statutory time limits
- Review of Control Reports
- Publishing scheme information
- Reporting breaches of the law
- Cash Flow monitoring

Funding

There are a number of activities undertaken in respect of funding. These are as follows:

- Agreeing the funding strategy with the actuary and consulting with employers and monitoring continued appropriateness annually
- Assisting the actuary with the Actuarial Valuation by providing membership data and presenting results and explanations to employers of future employer contributions and deficit payments
- Arranging actuarial data required by the Government Actuary Department ("GAD")

Investment and Risk

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.

The Investment Strategy is fundamentally reviewed every 3 years and sets out the strategic allocation to various types of investments.

The implementation of the strategy is carried out by the Head of Finance. The Head of Finance operates within the parameters agreed by the Committee.

Member Experience and Engagement

The Pensions Administration team provides a service to employers, scheme members and their beneficiaries as well as processing monthly pensioner payroll.

Providing a service to members includes a variety of activities, examples are as follows:

- Providing ongoing information to scheme members and their beneficiaries as they join, leave or change their status in the Fund, within statutory timescales
- Calculating and notifying entitlement to retirement, leaving and death benefits
- Processing transfers into and out of the Fund
- Providing quotations of retirement benefits including any additional costs to employers
- Providing information on how scheme members can increase their pension benefits
- Providing information to solicitors in respect of divorce proceedings
- Maintaining accurate scheme member records
- Maintaining the Fund's Internal Dispute Resolution Procedure
- Maintaining and updating the pensions software system
- Providing guidance on changes in processes following legislation updates
- Providing information on progress against key performance indicators
- Extracting and forwarding data to the Fund actuary to track membership changes for employer mergers and TUPE transfers
- Paying pension benefits

The Fund engages and communicates with members and employers by

- Providing information to employers and members via newsletters
- Maintaining the Fund's website
- Providing new employers with information about their Fund responsibilities
- Providing ongoing training and technical updates to employers
- Running an Annual Employers Forum

Indicative Budget 2024-25

The indicative budget for 2024-25 is detailed at Appendix 2 of the plan.

The budget has been set using previous years trends of expenditure which have been adjusted to reflect the revised employers' contribution rates, estimated levels of pay awards and estimated levels of pension increases.

Some items are traditionally difficult to predict with any certainty such as Transfers to and from other schemes, Investment Management Expenses and Net Returns on Investment.

Administrative Costs cover the costs of the Administration Team and the Investment Team. This is based on the current agreed staffing levels. Oversight and Governance costs include the costs of external advisers.

The budget is routinely monitored and reported to Committee on a biannual basis.

Workforce Planning

The Pensions functions is managed by the Head of Finance, who is supported by the Finance Operations Manager and two teams, the Pension Administration Team and Investment Team.

In recognition of the increasing governance requirements and the scale of some elements of the business plan, a review of resources at a senior level has determined that the current level of resource is not sustainable. In order to deliver all of the strategic elements of managing the fund to a high standard and within reasonable timescales, with a clear focus on the Fund, additional resource will be required.

It is important to ensure that these Teams are adequately resourced to deliver the Service and are prepared for the future.

To this end, improved workforce planning arrangements are being developed which will incorporate training and employee development needs, succession planning arrangements as well as promoting a positive culture, good leadership and support for employee wellbeing. Further work will be carried out on reviewing the structure of the team ensuring it is fit for purpose in the coming years. This will involve reviewing job profiles and introducing trainee roles.

Development Activities

Several areas of work will need to be advanced during 2024-25, which is outlined as follows:

- **Procurement**
  Fife will be participating in a joint procurement arrangement with our partner funds for renewing our Custody and Performance measurement arrangements. Details of the expected timelines have yet to be agreed.

- **McCloud Judgement**
  Work will continue during 2024 on the McCloud judgement. This will include updating of all in-scope pension records, correction of errors and calculations required to determine if members are impacted by the judgement. Updates to software will be carried out. Communications with members and employers' will also be issued. Dialogue and participation user groups with other funds and software suppliers is ongoing.

- **Pensions Dashboards**
  Pensions Dashboards 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.

  A revised staging timeline means that all Schemes in scope will need to be connected by **31 October 2026.** The Pension Dashboard Programme (PDP) has confirmed the staging date for public service pension schemes is **30 September 2025.**

  To achieve this deadline, preparation, cleansing of data and working with software suppliers will be advanced in the coming year.

  A communication plan will be developed for updating members on this development.

- **Taskforce for Climate Related Financial Disclosures (TCFD)**
  It is widely recognised that climate change presents a financial risk to the global economy. The TCFD was created to improve and increase reporting of climate-related financial information.

The Government consulted on their proposals for the Governance and Reporting of climate risks. The proposals apply to LGPS in England and Wales and followed the TCFD framework which would require Administering Authorities to consider and report on four key areas of governance, strategy, risk management and metrics and targets. The aim of the framework being to help the LGPS demonstrate how the consideration of climate risks and opportunities are integrated into the decision-making process.

Although, no commitment has been in Scotland to date, it is expected that given the increased focus on climate change, there will be similar requirements. To some extent this is recognised in the updated Statement of Responsible Investment Principles (SRIP) for the Fund. Working with our partners the SRIP will be kept under review as well as further research and agreement on the reporting and disclosure requirements. Training will be provided to gain an understanding of the requirements. .

- **tPR General Code of Practice**

  The Pension Regulator General Code of Practice comes into effect from 27 March 2024. This code brings together 10 of the 15 codes of practice into one single code consisting of 51 modules across 5 sections. There are two additional areas of compliance added to the code, these being Cyber Controls and Scams. Work will be undertaken to carry out a gap analysis and assessment of Fife Pension Fund's compliance with the revised code and an action plan prepared to address any gaps. Consideration will be given to tools to carry out this gap analysis that are available. Regular updates on this work will be provided to committee as part of the quarterly reporting process.

- **KPI review**
  Developments will continue in the collection and presentation of KPI data to both elected members and management. The use of Power BI tool is being tested which will improve the process and presentation of data. Customer Satisfaction surveys are also being considered. In order to determine the best method of survey dialogue is taking place with other funds on how they carry out satisfaction surveys and the results this has generated. Work is also ongoing with the Fife Council Business Management Innovation Unit (BMIU) analysing customer contact to determine the nature and volume to allow assessment of effectiveness of different means of contact. The BMIU are also investigating customer satisfaction tools that can be used on the website.

- **Continuous Improvement of Processes**
  Some areas of improvement work are continuing and have been carried forward from 2023-24 as these have not yet been completed. These and other areas are noted below: Roll out of **Member Self-Serve (MSS) to all pensioner members**
  - **Transfer-in** criteria to be reviewed and considered by Committee
  - **Transfer- out** process to be reviewed to ensure meeting regulations
  - Working with the BMIUto improve and enhance processes and maximising the use of digital technologies
  - **Implementation** of revised Pension and HMRC regulations
  - Review of **Mandatory/Voluntary Scheme Pays**
  - Continued Review of **Governance Documentation**

Key Activities Planner

Detailed team workplans for carrying out activities associated with both Pensions Administration and Investment are prepared on an annual basis and contribute to the workplan of the Pensions Governance Group.

A high-level summary of these activities for the coming financial year is detailed as follows:

2024-25	Quarter 1 (Apr to June)	Quarter 2 (July to Sept)	Quarter 3 (Oct to Dec)	Quarter 4 (Jan – March)
Actuarial	IAS19/FRS102 reports for year end processes			
Administration	Annual Pension Increase Year-end processing HMRC reporting and returns McCloud Judgement Pension Dashboard preparation Roll out of MSS to pensioner members. Transfer in process criteria Transfer out process improvements and training Annual promotion of MSS to non-registered members Analysis of mailbox and website	HMRC reporting pensioner process improvements	implementation HMRC reporting to pensioner process improvements	HMRC reporting and returns McCloud Judgement Pension Dashboard Preparation Roll out of MSS to pensioner members

Audit	Update on Internal Annual Audit plan Internal Annual Audit Report	External Audit process and report		External Audit Plan
Governance	Quarterly Risk Annual Report and Responsible of Practice gap	Quarterly Risk Gap Analysis and	Quarterly Risk Review Annual Review of Communications Policy tPR General Code of Practice Gap Analysis and action plan	Quarterly Risk Review Preparation of Indicative budget Preparation of Business Plan
Skills and Training	Committee and Board Training Prepare details of training attended	Update Training Plan Committee and Board training	Committee and Board training	Committee and Board training
Investment	Joint Investment Forum Qtrly Fund Managers meetings Transition Activity	Joint Investment Forum Qtrly Fund Managers meetings Transition Activity	Joint Investment Forum Qtrly Fund Managers meetings Transition Activity	Joint Investment Forum Qtrly Fund Managers meetings

Pensions Committee Meetings	30 May 2024 28 June 2024	24 Sept 2024 30 Sept 2024	13 Dec 2024	31 March 2025

Here is the plan for 2025-26 which is less detailed at this stage.

2025-26	**Quarter 1 (April to June)**	**Quarter 2 (July to Sept)**	**Quarter 3 (Oct to Dec)**	**Quarter 4 (Jan to Feb)**
Actuarial				
Administration	Annual Pension Increase HMRC reporting and returns Year End Processing Pension Dashboard Preparation	Issue Annual Benefit Statements HMRC Reporting and returns Year End Processing Pension Dashboards Preparation	HMRC reporting and returns Annual Allowance deadline	HMRC reporting and returns
Audit	Update on Internal Annual Audit plan Internal Annual Audit Report	External Audit process and report		
Governance	Quarterly Risk Review Annual Governance Statement	Quarterly Risk Review Annual Review of	Quarterly Risk Review Annual Review of	Quarterly Risk Review

				Preparation of
Skills and Training	Committee and Board training	Committee and Board training	Committee and Board training	Committee and Board training
Investment	Joint Investment Forum Qtrly Fund Managers meetings Transition Activity Private Markets investment activity	Joint Investment Forum Qtrly Fund Managers meetings Private Markets investment activity CEM Benchmarking	Joint Investment Forum Qtrly Fund Managers meetings Private Market investment activity CEM Benchmarking	Joint Investment Forum Qtrly Fund Managers meetings Private Market investment activity
Pensions Committee Meetings	20 June 2025 30 June 2025	TBC	TBC	TBC

Conclusions

This Business Plan is designed to set out the day-to-day business and development work being undertaken by the Fife Pension Fund.

The plan sets out the high-level activities and is supported by workplans used by the Teams and governance arrangements that are in place.

Key Governance Documentation

Fife Pension Fund Indicative Budget 2024-25

2023-24 Indicative Budget		Note	2024-25 Indicative Budget
£m			£m
	Dealings with members, employers and others directly involved in the fund		
(122.290)	Contributions Received		(123.410)
(2.810)	Additional Contributions from Employers		(2.010)
(2.660)	Transfers from Other Schemes		(2.160)
(127.760)			(127.580)
84.500	Pension Payments		93.050
20.340	Lump Sum Benefits		20.600
0.230	Refund of Contributions		0.250
0.010	State Premium Schemes		0.000
4.460	Transfers to Other Schemes		3.960
109.540			117.860
(18.220)	**Net (additions)/withdrawals from dealings with members**		**(9.720)**
1.850	Administrative Costs	1	2.160
0.670	Oversight and Governance Costs	1	0.600
	Investment Management Expenses:-		
8.650	Management Fees		12.020
0.880	Performance Related Fees		0.910
0.110	Custody Fees		0.170
4.340	Transaction Costs		2.100
(1.720)	**Net (additions)/withdrawals including fund management expenses from dealing with members**		**8.240**
	Returns on investments		
(26.090)	Investment Income		(48.000)
0.230	Taxes on income		0.260
(127.100)	Profit and losses on disposal of investments and changes in the market value of investments		(123.100)
(152.960)	**Net return on investments**		**(170.840)**
(154.680)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(162.600)**
(3,250.255)	Estimated opening net assets of the scheme at 1 April 2024		(3,501.959)
(154.680)	Estimated net (increase)/decrease in the Fund		(162.600)
(3,404.935)	**Estimated closing net assets of the scheme at 31 March 2025**		**(3,664.559)**
	Note 1		
	These are deemed the controlable elements of this budget.		

28 March 2024

Agenda Item No. 10

Update on 2023/24 Fife Pension Fund Internal Audit Plan

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

Wards Affected: All

Purpose

To submit to Members of the Pensions Committee an update on progress towards delivering the 2023/24 Fife Pension Fund Internal Audit Plan.

Recommendation(s)

Members are asked to note the update on progress towards delivering the 2023/24 Internal Audit Plan at Appendix A.

Resource Implications

None.

Legal & Risk Implications

Without suitable internal controls, there is an increased risk that the Fife Pension Fund will not achieve its objectives.

Impact Assessment

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

None.

1.0 2023/24 Internal Audit Plan – Progress Report

1.1 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”.

1.2 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 Chief Executive, Executive Director of Finance and Corporate Services, Head of Finance (to whom the Service Manager, Audit and Risk Management Services reports administratively) and the Finance Management Team.

1.3 The Fife Pension Fund’s Internal Audit Plan for the 2023/24 financial year was approved at the Pensions Committee on 30 June 2023. In relation to progress towards its delivery, one of the two individual assignments within it, as well as the formal follow-up, have been planned and a resource is in the process of being identified to ensure delivery before the Annual Internal Audit Report is submitted to Pensions Committee. In addition, the Post Audit Review exercise is now complete. For further information in relation to progress towards delivering the 2023/24 Internal Audit Plan and the assignments within it, see Appendix A.

2.0 Conclusions

2.1 One of the two individual assignments within it, as well as the formal follow-up, have been planned. In addition, the Post Audit Review exercise is now complete. Updates towards delivering the 2023/24 Internal Audit Plan will be submitted to the Pensions Committee until all of the individual assignments within it are complete.

List of Appendices

A. Progress Report on 2023/24 Fife Pension Fund Internal Audit Plan

Report Contact:

Pamela Redpath
Service Manager – Audit & Risk Management Services
Email – pamela.redpath@fife.gov.uk

2023/24 Fife Pension Fund Internal Audit Plan – Progress Report

Not Yet Commenced	Planning	Fieldwork	Reviewing	Draft Report Issued	Complete / Pensions Committee Date

2023/24 INTERNAL AUDIT PLAN	Proposed Coverage	Status 28/03/24
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	**Not Yet Commenced**
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.	**Planning**
Follow - Up Review (Cyber Security, Report P03/22)	Review undertaken by internal audit staff to provide formal assurances to management and Elected Members that recommendations previously agreed have been implemented.	**Planning**
Post Audit Reviews (PARs)	Completion of the PAR exercise, whereby formal assurances are obtained from management that internal audit recommendations have been implemented.	**28/03/24**
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.	**Ongoing**
Specific Investigations	To respond to requests for advice and assistance as required in respect of cases of suspected fraud, corruption or malpractice.	**Ongoing**

28 March 2024

Agenda Item No. 11

Azets – Annual Audit Plan Fife Pension Fund

Report by:	Elaine Muir, Head of Finance
Wards Affected:	All

Purpose

The attached report provides members with details of Azets External Annual Audit Plan for Fife Pension Fund for the financial year 2023/24 and sets out the risks highlighted, planned work , audit scope and timing

Recommendation(s)

The Committee is asked to:-

(1) note the content of the Azets External Annual Audit plan for 2023/24.

Resource Implications

This report does not have any direct resource implications beyond the audit fee detailed in the plan.

Legal & Risk Implications

The audit plan highlights the area of risk covered by the audit work and the details of quality control established to provide assurance of compliance with regulatory and legal requirements.

Impact Assessment

An IIA checklist is not required as this report does not recommend changes to Council policy and does not require a decision.

Consultation

Council officers have had the opportunity to review and comment on the audit plan for accuracy and have responded to this effect.

Report Author

Elaine Muir
Head of Finance, Fife Council
Email:- elaine.muir@fife.gov.uk

Fife Pension Fund

External Audit Annual Plan

Year ended 31 March 2024

March 2024

Table of Contents

Introduction

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Fife Pension Fund ("the Fund") for the year ended 31 March 2024.

Our audit work will cover:

- the financial statements within the 2023/24 annual report and accounts;
- the wider scope of public audit;
- any other work requested by Audit Scotland.

Adding value through the audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Fund through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

If there are any elements of this audit plan to which you do not agree or you would like to discuss, please let us know as soon as possible.

Any comments you may have on the service we provide, the quality of our work, and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

This plan has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Openness and transparency

This report will be published on Audit Scotland's website http://www.audit-scotland.gov.uk/

Audit scope and general approach

Responsibilities of the auditor and the Fund

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission for Scotland and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

Fife Council is the administering authority for the Fife Pension Fund. The Council delegates this responsibility to the Pensions Committee. The Pensions Committee has a primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing a set of annual report and accounts that are in accordance with proper accounting practices. The Pensions Committee is also responsible for complying with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

Appendix 2 provides further details of our respective responsibilities.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the Fund. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	**Our understanding of the sector, its key priorities and risks**	**Attending & observing the Pensions Committee**
Guidance from Audit Scotland	**Discussions with Audit Scotland and public sector auditors**	**Discussions with internal audit and review of plans and reports**
Review of the Fund's corporate strategies and plans	**Review of the Fund's corporate risk registers**	**The outcome of prior years' audits**

Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Pensions Committee.

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Our Audit Scotland appointments include Fife Council and Lothian Pension Fund. Where practicable and appropriate we will share knowledge to generate efficiencies in the delivery of our audits.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the Fund's arrangements for taking action on any issues reported in the national performance reports which have a local impact. We also consider the extent to which the Fund uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to the Fund is used as efficiently and effectively as possible.

Assurance protocols

Audit Scotland produces protocols to provide an agreed framework for auditors to seek and provide assurances in specific areas. Assurance protocols are in place for the Local Government Pension Scheme. We may utilise these protocols to gain assurance in respect of the calculation of pension contributions from auditors of employing bodies.

Delivering the audit

Hybrid audit approach

We adopt a hybrid approach to our audit which combines on-site visits with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the ‘fieldwork’ phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual report and accounts

Audit Scotland recommends the electronic signing of the annual report and accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts, which can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high-quality PDF version of the accounts.

Approach to audit of the financial statements

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an independent auditor’s report that includes our auditor’s opinion.

As part of our risk-based audit approach, we will:

- perform risk assessment procedures including updating our understanding of the Fund, including its environment, the financial reporting framework and its system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Materiality

“Reasonable assurance” is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor’s report of the extent to which the audit was capable of detecting irregularities, including fraud, and respective responsibilities for prevention and detection of fraud.

We apply the concept of materiality in planning and performing the audit, and in evaluating the effect of misstatements within the financial statements identified during the audit.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The basis for our assessment of materiality for the year is set out in Appendix 1. Materiality is subject to change throughout the audit process.

Any identified errors greater than £2.565million in relation to investments and £0.298million in relation to dealings with members will be recorded and discussed with those charged with governance and, if not adjusted, confirmed as immaterial as part of the letter of representation to us.

Accounting systems and internal controls

We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work will not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If we identify significant deficiencies in controls, we will report these to the Pensions Committee.

Specialised skill or knowledge required to complete the audit

Our audit team will consult internally with our Technology Risk team in assessing the information technology general controls (ITGC).

Going concern

In most public sector entities (including pension funds), the financial reporting framework envisages that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest than the application of the going concern basis. Our wider scope audit work considers the financial sustainability of the Fund.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular, we require to be notified of all frauds which:

- involve the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control and;
- are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Anti-money laundering

We require to be notified on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Correspondence

People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.

The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will make this judgement using their professional and technical knowledge.

National risk assessment

Where particular areas of national or sectoral risk have been identified by the Auditor General and Accounts Commission, they will request auditors to consider and report on those risks as they apply at a local level. For 2023/24 no such risks have been specified.

Climate change

In 2022/23 we were required to gather information on the Fund's response to climate change. The information is due to be analysed centrally by Audit Scotland to draw conclusions that can be used to determine an appropriate course of action over the period of audit appointment. The information will not be available until later in the year and therefore we have no specific actions on climate change for 2023/24.

For information, Audit Scotland centrally intends to carry out the following activities related to climate change in the short term:

- An overall approach to auditing climate change will be developed.
- A central review of disclosures related to climate change in public bodies' 2022/23 annual accounts will be carried out and shared in a Good Practice Note.
- Audit Scotland will continue to participate in discussions around the development and implementation of new climate change financial reporting standards and will keep auditors apprised of progress.

Wider audit scope work

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. Appendix 2 provides detail of the wider scope areas of public sector audit work. Our initial risk assessment and scope of work planned for 2023/24 is outlined in the 'Wider Scope' section of this plan.

Reporting our findings

At the conclusion of the audit we will issue:

- an independent auditor's report setting out our formal audit opinions within the annual report and accounts, and
- an annual audit report describing our audit findings, conclusions on key audit risks, judgements on the pace and depth of improvement on the wider scope areas, and any recommendations.

Definitions

We will use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.

There is a fundamental absence or failure of arrangements
There is no evidence to support necessary improvement
Substantial unmitigated risks affect achievement of corporate objectives.

Arrangements are inadequate or ineffective
Pace and depth of improvement is slow
Significant unmitigated risks affect the achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists
Pace and depth of improvement are adequate
Risks exist to the achievement of operational objectives

Effective and appropriate arrangements are in place
Pace and depth of improvement are effective
Risks to the achievement of objectives are managed

Financial statements - significant audit risks

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Management override of controls	Audit approach
Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk. Specific areas of potential risk include manual journals, management estimates and judgements and one-off	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals. • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been

Management override of controls	Audit approach
transactions outside the ordinary course of the business. **Risk of material misstatement: Very High**	undertaken in line with the Fund's journals policy. • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Fraud in revenue recognition	Audit approach
Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements). The presumption is that the Fund could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. **Inherent risk of material misstatement:** • **Revenue (occurrence/completeness): High**	Income recognised in the Fund's accounts relates to contributions received from member bodies and transfers in from other pension funds. We do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate income of this nature and therefore have rebutted this risk. We will review our assessment during the fieldwork stage of our audit.

Fraud in non-pay expenditure	Audit approach
As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure, in particular, around the year end. **Inherent risk of material misstatement:** • **Non-pay expenditure (occurrence / completeness): High**	Expenditure recognised in the Fund's accounts relates to benefits payable, payments to and on account of leavers and management expenses. We have assessed benefits payable to be the Fund's only material expenditure stream. We perform separate tailored testing on benefits payable and therefore have rebutted this risk. We will review our assessment during the fieldwork stage of our audit.

Investments valuations (key accounting estimate)	**Audit approach**
The Fund held investments of £3.426billion as at 31 March 2023, of which 44% (£1.517 billion) were classified as level 2 or level 3 financial instruments. These level 2 and 3 financial instruments are generally gilts and investment in infrastructure, which are more subjective in their valuation. Valuations of such investments are not based on unadjusted quoted prices in active markets, rather estimation produced by Investment Managers commissioned by management as experts. Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error. **Inherent risk of material misstatement:** • **Investments (valuation/existence): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the investment managers and the scope of their work. • Evaluating the competence, capabilities and objectivity of the investment managers. • Considering the basis on which the valuation is carried out and the challenge in the key assumptions applied. • Testing the information used by the investment managers to ensure it is complete and consistent with our understanding. • Ensuring that the year end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct.

Disclosure of present value of retirement obligations (key accounting estimate)	Audit approach
An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 26 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the Fund and have regard to local factors such as mortality rates and expected pay rises with other **assumptions around inflation when calculating the liabilities.** **There is a risk that the data and assumptions used by management's expert are not appropriate in producing their estimate of the pension obligations, which results in an increased risk of material misstatement of this disclosure.** **Inherent risk of material misstatement:** **Retirement obligations (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Reviewing the controls in place to ensure that the data provided to the actuary is complete and accurate. • Considering the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreeing the disclosures in the financial statements to information provided by the actuary.

The wider scope of public audit

Introduction

As described previously, the Code of Audit Practice frames a significant part of our responsibilities in terms of four wider scope audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes.

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the Fund's key priorities and risks along with discussions with management and review of committee minutes and key strategy documents.

Wider scope significant risks

At this stage, we have not identified any significant risks in relation to the wider scope areas. Audit planning however is a continuous process, and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report.

Further wider scope considerations

In formulating our audit plan, we identified areas of possible significant risk in relation to all wider scope areas. Our audit approach will include reviewing and concluding on the following considerations to substantiate whether significant risks exist:

Financial sustainability

- The Fund have received the results of the triennial valuation and is assessing the impact of the Fund. We will review the effect that this has on the longer term with regards to financial sustainability.

Financial management

- Whether the quality of the financial performance information presented to the Pensions Committee allows appropriate scrutiny of the Fund's performance and supports effective decision making.
- There were two admitted bodies that exited the Fund in the financial year. We will assess the impact of this on the Fund.

Use of resources to improve outcomes

- Whether the Fund can evidence the achievement of value for money in the use of resources.
- How the Fund demonstrates a focus for improvement in the context of continuing financial challenge.
- How the Fund provides a clear link between investment decisions and actual performance achieved.

Vision, leadership and governance

- We will consider whether the Fund can demonstrate that any changes to the governance arrangements in place are appropriate and operating effectively
- We will consider the governance compliance statement for areas of non-compliance and completeness of disclosure, and update our audit response accordingly.

Audit management team and timetable

Audit management team

Our audit management team will be as follows:

Role	Name	Email
Engagement Lead	Karen Jones	Karen.Jones@azets.co.uk
Engagement Manager	Andrew Ferguson	Andrew.Ferguson@azets.co.uk
Auditor in Charge	Thomas McCormick	Thomas.McCormick@azets.co.uk

Timetable

Audit work/ output	Target month/s	Pensions Committee	Deadline
Audit plan	February / March	28 March 2024	31 March 2024
Interim audit	March / April	N/A	N/A
Final audit	July - September	N/A	N/A
Independent Auditor's Report	September	30 September 2024	30 September 2024
Annual Report to the Pensions Committee and the Controller of Audit	September	30 September 2024	30 September 2024

Our requirements

The audit process is underpinned by effective project management to co-ordinate and apply our resources efficiently to meet your deadlines. It is essential that the audit team and the Fund’s finance team work closely together to achieve the above timetable.

In order for us to be able to complete our work in line with the agreed fee and timetable, we require the following:

- draft financial statements of a good quality by the deadlines you have agreed with management.
- good quality working papers at the same time as the draft financial statements. These will be discussed with management in advance to ensure clarity over our expectations.
- ensuring staff are available and on site (as agreed) during the period of the audit.
- prompt and adequate responses to audit queries.

Audit Fee

The quality of audit work is an essential requirement in successfully delivering a fully compliant ISA and Code of Audit Practice audit. Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate unaudited accounts and meets the agreed timetable for audit.

The expected fee is reviewed by Audit Scotland each year, based on Audit Scotland's overall budget proposals. The budget proposal and fee levels (for the 2023/24 audits) have been developed in the context of a challenging economic environment, increased expectations on the audit profession and the ongoing process of recovery following the Covid-19 pandemic.

The 2023/24 expected audit fee is based on applying a 6% increase to the 2022/23 expected audit fee. This increase is applied on a sector basis and reflects the conditions of the public sector market.

As auditors we negotiate a fee with the Fund during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

For 2023/24, we propose setting the audit fee above the expected fee level. We propose setting the 2023/24 audit fee above the expected fee to reflect the following areas of work:

	Fee
Changes to auditing standards have increased the complexity and volume of audit work required to carry out audits in line with these standards, partly as a response to questions over the sufficiency of audit in light corporate failings. In 2022/23, auditing standards (ISA 240 and ISA 315) relating to risk assessment came into effect which substantially changed the approach auditors take to risk assessment and the resultant audit procedures.	£3,600

Fee element	2023/24	2022/23
Auditor remuneration (expected fee level)	£60,340	£56,930
Audit remuneration (above expected fee level for risk areas noted above)	£3,600	£3,985
Pooled costs	£2,200	-
Contribution to PABV costs	-	-
Audit support costs	-	£2,160
Sectoral cap adjustment	(£17,770)	(£16,850)
Total fee	**48,370**	**£46,225**

We will take account of the risk exposure of the Fund and the management assurances in place. We assume receipt of the draft working papers at the outset of our final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant work not within our planned audit activity.

Audit independence and objectivity

Auditor Independence

We are required to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence.

Azets has not been appointed to provide any non-audit services during the year. We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Fund, its committee members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendices

Appendix 1: Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Fund and the needs of the users.

When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2024 was calculated as follows.

Materiality

	£million
Overall materiality for the financial statements	51.300
Performance materiality (75% of materiality)	38.475
Trivial threshold (5% of materiality)	2.565

Materiality	Our initial assessment is based on approximately 1.5% of the Fund's net assets as at 31 March 2023. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance.
Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. Individual errors above this threshold are communicated to those charged with governance.

Special materiality for dealings with members

	£million
Dealings with members materiality	5.960
Performance materiality (75% of materiality)	4.470
Trivial threshold (5% of materiality)	0.298

Materiality	We apply lower materiality for dealings with members, based on the fact these transactions are significant to the Fund's activities and it would not be appropriate to use the assets-based materiality to audit them. Our initial assessment is based on approximately 5% of the Fund's 2022/23 gross expenditure as disclosed in the 2022/23 audited financial statements. We consider this to be the principal consideration for the users of the financial statements when assessing the Fund's dealings with members.

Related Parties disclosures are material by nature. For related party transactions, in line with the standards we will consider the significance of the transaction with regard to both the Fund and the counter party, the smaller of which will drive materiality considerations on a transaction-by-transaction basis.

Appendix 2: Responsibilities of the Auditor and the Fund

The Accounts Commission, Controller of Audit and Audit Scotland

The Accounts Commission is an independent public body. Its members are appointed by Scottish Ministers and are responsible for holding local government to account.

Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the 2021 Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Pensions Committee and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

The administering authority (Fife Council) has responsibility for ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a statutory duty to make arrangements to secure Best Value, which are subject to audit.

he outcome of audit work on the administering authority's Best Value arrangements is reported in the Fife Council annual audit report. There are no findings directly applicable to the Fund.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at Quality of public audit in Scotland: Annual report 2022/23 | Audit Scotland (audit-scotland.gov.uk)

Fund responsibilities

Fife Council is the administering authority for the Fife Pension Fund. The Council delegates this responsibility to the Pensions Committee. The Pensions Committee has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	Fund responsibilities
Corporate governance	The Fund is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	The Fund has responsibility for: • preparing financial statements which give a true and fair view of the financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Area	Fund responsibilities
	The Fund is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Fund is also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The Fund is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	The Fund is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to: • such financial monitoring and reporting arrangements as may be specified; • compliance with statutory financial requirements and achievement of financial targets; • balances and reserves, including strategies about levels and their future use; • plans to deal with uncertainty in the medium and long term; and • the impact of planned future policies and foreseeable developments on the financial position.

28 March 2024

Agenda Item No. 12

Post Audit Review (PAR) Report

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

Wards Affected: All

Purpose

To submit to Members of the Pensions Committee an update on progress towards implementing internal audit recommendations previously reported to and agreed by Management.

Recommendation(s)

Members are asked to note the contents of this report and the progress that has been made in implementing recommendations.

Resource Implications

N/A

Legal & Risk Implications

Non-implementation of recommendations could lead to control failures resulting in potential financial and/or non-financial losses.

Impact Assessment

An 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

Audit Services has consulted with all subjects of the reports.

1.0 Background

1.1 Standard 2500 of the Public Sector Internal Audit Standards (PSIAS) entitled Monitoring Progress states “the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management”. In practice this requirement is discharged by the Service Manager, Audit and Risk Management Services, ensuring that there are effective processes in place to capture assurances that audit recommendations have been implemented in full or, if this is not the case, that senior management are aware of the consequences and have accepted the risk.

1.2 The Internal Audit Plan submitted to the Pensions Committee annually contains an allocation of days for internal audit staff to carry out a formal follow-up review. That allocation is used to formally assess and report on the extent to which recommendations previously agreed with management have been implemented.

1.3 It is not feasible within existing resources for Audit Services to carry out formal follow-up reviews of all areas previously audited. Therefore, to ensure compliance with the PSIAS, assurances are also sought from management via this PAR exercise. These PARs require management to provide an update of the action taken in respect of recommendations previously made. Ideagen, Fife Council’s performance and risk management system, is used for this purpose. Based on these updates and taking cognisance of the potential risk if the actions previously agreed have not been implemented, a formal follow-up review may be subsequently undertaken by Audit Services and reported to Committee in line with paragraph 1.2 above.

1.4 Updates on recommendations with original / revised implementation dates preceding this date have been included in this exercise. The last PAR report was submitted to the Pensions Committee on 13 December 2022.

2.0 Assessment

2.1 Attached at Appendix 1 is a schedule summarising the work undertaken. The schedule also provides information surrounding report issue date, importance levels for each recommendation and commentary as to the current position of the implementation of the recommendations, where these have not been fully implemented.

2.2 Of the 37 recommendations referred to in Appendix 1, 26 (70.2%) have been fully implemented, 1 (2.7%) has been partly implemented, 9 (24.4%) have not yet been implemented and 1 is no longer applicable (2.7%). Assurances have been provided to Audit Services by management that the 1 partly implemented recommendation and 9 outstanding recommendations will be addressed, and revised timescales for completion have been specified. None of the outstanding recommendations have been assessed as critical.

2.3 Audit Services will continue to monitor progress towards implementation of all outstanding internal audit recommendations, reporting back to Pensions Committee as appropriate.

3.0 Conclusions

3.1 The PAR process ensures a structured approach to obtaining management assurances surrounding the action taken in respect of recommendations previously made.

3.2 Delays in the implementation of recommendations have occurred for a number of reasons, including work pressures. Revised implementation dates have been agreed with management as appropriate and the outstanding actions will be monitored until they are fully implemented.

List of Appendices

1. Summary of Progress on the Implementation of Internal Audit Recommendations (Internal Audit Reports issued since 27 February 2020).

Background Papers

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

- No background papers.

Report Contact

Hazel Hastie

Auditor, Audit & Risk Management Services

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Appendix 1 - Results of Post Audit Reviews – Internal Audit Reports Issued since 27 February 2020									
						Not Implemented			
Audit	**Report Number**	**Date Issued**	**Total Number of Recommendations**	**Fully Implemented**	**Partly Implemented**	**Moderate**	**Substantial**	**No Longer Applicable**	**Current Position**
Internal Audit									
Management of Information - Pensions	P2	27/02/20	4	4	0	0	0	0	Since the last PAR report was submitted to committee in December 2022, recommendations 3 and 4 have now been fully implemented.
Compliance with Regulations and Guidance	P6	29/03/21	6	5	0	1	0	0	Recommendation 3 remains outstanding and relates to reviewing existing policies and procedures. The original due date was June 2021, but this has been extended a few times to allow the policies to be reviewed sequentially rather than all at once, dealing with the significant policies as a priority and also now to coincide with the new regulator code which was published on 10 January 24. The two outstanding policies will be reviewed and updated in line with the new code by 31 May 24.
Performance Management	P7	02/06/22	12	11	0	0	0	1	Since the last report in December 2022, recommendations 2, 4, 5, 6, 7, 8, 9 and 11 have been fully implemented. Recommendation 3, which relates to the completion of definition sheets for each performance indicator, is no longer applicable as comprehensive documented procedures that cover the compilation

Appendix 1 - Results of Post Audit Reviews – Internal Audit Reports Issued since 27 February 2020									
Audit	**Report Number**	**Date Issued**	**Total Number of Recommendations**	**Fully Implemented**	**Partly Implemented**	**Not Implemented**		**No Longer Applicable**	**Current Position**
						Moderate	**Substantial**		
Internal Audit									
									of all KPIs in the agreed suite of indicators have been prepared instead.
Pension Contributions	P8	20/06/22	3	3	0	0	0	0	All three recommendations have been fully implemented.
Training and Resources Follow-up to Report P5	P01/22	08/03/23	1	0	1	0	0	0	This recommendation has been partly implemented. A Training Needs Assessment (TNA) has been carried out, however, a training plan with clear links to the TNA still needs to be developed. The original due date for this was 30 September 23, but it has been extended to 31 May 24. An overarching training plan linked to the Committee Workplan was implemented and is continuing in the current year. There has been a significant amount of turnover of both committee and board members, therefore a knowledge assessment is now being considered to give a better insight into the level of knowledge and training needs.
Risk Management Arrangements	P02/22	02/06/23	7	2	0	3	2	0	Recommendations 4 and 5 have been fully implemented. Recommendation 2, which relates to setting risk appetite at individual risk level has not yet reached

Appendix 1 - Results of Post Audit Reviews – Internal Audit Reports Issued since 27 February 2020									
Audit	**Report Number**	**Date Issued**	**Total Number of Recommendations**	**Fully Implemented**	**Partly Implemented**	**Not Implemented**		**No Longer Applicable**	**Current Position**
						Moderate	**Substantial**		
Internal Audit									
									its due date of 31 March 24 but has been extended to 31 May 24. The remaining 4 recommendations originally due for implementation ranging from 30 September 23 to 31 December 23 have all been extended to 31 May 24, again, to allow work on the valuation and investment strategy to complete. Focus will turn to addressing the outstanding risk management actions thereafter.
Cyber Security	P03/22	07/06/23	4	1	0	1	2	0	Recommendation 3 has been fully implemented. Recommendation 1 was split into 6 actions and 2 actions remain outstanding. The first action relates to the implementation of data loss prevention technology and the second relates to any alerts being notified to the Pensions Team, both of which were due for implementation by 31 August 23. Implementation of the two actions have been delayed as they are dependent on a managed Security Operations Centre (SOC) being implemented by BTS. Delays, in the SOC project, mean that the implementation dates for both of these will now be 28 June 24. Recommendation 2 was split into two parts and the first part, which was due for implementation by 30

Appendix 1 - Results of Post Audit Reviews – Internal Audit Reports Issued since 27 February 2020									
Audit	Report Number	Date Issued	Total Number of Recommendations	Fully Implemented	Partly Implemented	Not Implemented		No Longer Applicable	Current Position
						Moderate	Substantial		
Internal Audit									
									November 23, remains outstanding. This recommendation relates to Pension Fund management working with Fife Council's BTS and Emergency Resilience teams to ensure they are involved in future Council tests of cyber resilience, including implementing relevant lessons learned from the Black Mirror exercise. Also, to gain assurance that pension systems are considered in the development of relevant cyber incident playbooks. An extended implementation date of 30 June 24 has been agreed due to resource pressures within BTS. Recommendation 4, which had an original due date of 31 December 23 is still outstanding and has been extended to 31 May 24. This recommendation relates to reviewing the Risk Management Manual and formally documenting the flow of cyber risk information relevant to the Pension Fund and is linked to the comments on risk management above.
Total			**37**	**26**	**1**	**5**	**4**	**1**	

28 March 2024

Agenda Item No. 13

Pensions Committee Workplan and Training Plan

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to provide the Committee with an overview of the proposed agendas for future meetings of the Pensions Committee and the annual cycle. The report also highlights the proposed internal training sessions designed to complement Committee meetings and allow members more time to explore topics in depth.

Recommendation(s)

The Committee is asked to:-

1. Consider and comment on the agenda planning document.
2. Note the scheduled training dates

Resource Implications

There are no resource implications arising from this report.

Legal & Risk Implications

There are no direct legal implications arising from this report.

Impact Assessment

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

Consultation

None

1.0 Background

1.1 In order for the Committee and Pension Board to gain an overview of the content of future meetings, as well as an awareness of the cyclical nature of items, a committee workplan is submitted to each meeting.

1.2 There will, of course be specific matters and papers which need to be brought to the attention of Committee in addition to those set out in the workplan. These will be added to the work programme as soon as they become apparent.

1.3 The workplan is attached as Appendix 1.

2.0 Workplan

2.1 The proposed agenda items for future meetings are set out below, based on the usual Committee cycle plus any known additional report requests.

Pension Committee Workplan 2024-25						
		Committee Dates				
Report Title	**Report Category**	**30 May & 28 Jun-24**	**24 Sep & 30 Sep 24**	**13 Dec 24**	**31 Mar 25**	**20 Jun & 30 June 25**
Administration						
Review of Administration Strategy	Administration	x				
Transfer In Criteria	Administration	x				
Governance						
Fife Pension Fund Business Plan and Budget	Governance				x	
Fife Pension Fund Annual Report and Accounts	Governance	x	x			x
Annual Audit Report by External Audit	Governance		x			
Pension Fund Budgetary Control - Projected Outturn	Governance	x		x		x
Update on Fife Pension Fund Business Plan (incl Admin Performance)	Governance	x	x	x	x	x
National Fraud Initiative	Governance	x				
Communication Policy	Governance			x		
Update on Annual Internal Audit Plan and Summary of Reports	Governance				x	
Internal Audit Post Audit Review Report	Governance				x	
Annual Internal Audit Report	Governance				x	
Annual Governance Statement	Governance	x				x
Training and Development	Governance	x				x
Audit Plans (Internal and External)	Governance				x	
Internal Dispute Resolution Procedure (IDRP)	Governance	x				
Breaches of the Law	Governance	x				
Investment						
Fife Pension Fund- Investment Update	Investment	x	x	x	x	x
Statement of Investment Principles	Investment	x				x
Statement of Responsible Investment Principles (update)	Investment	x				x
Annual Review of Shared Services Agreement	Investment				x	
CEM Benchmarking and Cost Transparency	Investment	x			x	
Risk						
Risk Management Update	Risk	x	x	x	x	x

2.2 In recognition of the need to balance the volume of business alongside the statutory deadlines for consideration of the annual report and accounts, additional meetings has been scheduled in May and September 2024 and June 2025. These meetings have been scheduled to give the flexibility to manage the volume of business over two meetings if required. The split of agenda items across the meetings has yet to be determined.

3.0 Training Plan

3.1 Targeted training will continue to be scheduled prior to committee meetings to provide more detailed information and training before reports are considered. This is consistent with the agreed Training Policy. Provisional dates have been agreed as follows:

	Training Dates							
Topics to be covered	**02-May-24**	**04-Jun-24**	**27-Aug-24**	**02-Sep-24**	**15-Nov-24**	**03-Mar-25**	**23-May-25**	**02-Jun-25**
Administration								
KPI - use of Power BI reporting								
Pension Dashboards								
Funding								
Future Actuarial Valuation								
Cash Flow	x							
Governance								
Fife Council Councillors Code of Conduct								
The Role of the Pension Board								
Investment								
Policy Groups Deep Dives								
CEM Benchmarking and Cost Transparency	x							
Responsible Investment incl Engagement								
Foreign Exchange Transactions								
Independent Advisers								
Currency Hedging								
Asset Classes and Benchmarking								
Risk								
Risk Management Update								
General								
Meet the Advisers								

3.2 The list of topics covered is not exhaustive and is regularly reviewed and updated. Dates have yet to be scheduled to cover some of the topics. Discussion is ongoing with our partner funds on the possibility of delivering joint training sessions similar to Investment Strategy delivered earlier this year. Dates and subject matter will be confirmed in due course. Doing so may alter the dates noted in the table.

4.0 Conclusions

4.1 A detailed workplan for the business of the Committee has been prepared and outlines the cyclical nature of reports.

4.2 Provisional training dates have been scheduled and topics are being allocated to those dates.

List of Appendices
1. Committee Workplan

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

Report Contact
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APPENDIX 1

PENSION COMMITTEE WORKPLAN

Frequency	Agenda Items
Quarterly	Fife Pension Fund - Investment Update Risk Management Review Update on Fife Pension Fund Business Plan incl Administration Performance
Bi-annual	Fife Pension Fund Budgetary Control
Annual	Audit Plans (internal and external) CEM Benchmarking and Cost Transparency Business Plan Internal Audit Post Audit Review Report Update on 2023/24 Internal Audit Plan and Summary of Audit Reports issued Draft Annual Report and Accounts Annual Internal Audit Report Annual Governance statement Training and Development Statement of Investment Principles Statement of Responsible Investment Principles Annual Audit Report and Accounts Annual Review of Shared Service Arrangement National Fraud Initiative Communication Policy
Every 3 years	Actuarial Valuation Updates Actuarial Valuation Funding Statement Strategy Investment Strategy Administration Strategy
As required	Audit Reports (Internal) Policy Reviews Currency Hedging

28 March 2024

Agenda Item No. 14

Risk Management - Quarterly Review

Report by:	Elaine Muir, Head of Finance
Wards Affected:	ALL

Purpose

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

Recommendation(s)

The Committee are asked to:-

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

Resource Implications

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

Legal & Risk Implications

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

Impact Assessment

An EqIA Assessment is not required.

Consultation

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

1.1 As reported previously, a fund specific risk register has been developed in accordance with the Pensions Regulator's Code of Practice. The risk register covers investment, governance and administration risk. It is held as a separate risk register on Ideagen, Fife Council's risk management system and is reviewed on a quarterly basis by the Pensions Governance Group, which is an officers group chaired by the Head of Finance.

1.2 The risk register forms a key part of the risk management strategy for Fund. It provides a structured and focussed approach to managing risks.

1.3 An updated risk register was presented to committee in December. Since that time the register has been reviewed by the Pensions Governance Group at its meeting on 07 February 2024 and again by the Finance Operations Manager following completion of the committee reports. These reviews included an assessment of risks and the effectiveness of associated internal controls, as well as considering any additional risks to be added and any additional context.

1.4 This report provides an update on the Risk Register since the last Committee.

2.0 Risk Register

2.1 The following grids provide a summary of the target risk scores compared to the current risk scores and the risk scores for last quarter for the risks associated with the Pension Fund.

Target

		1		
	3	9	6	

Previous Quarter

		1	1	
		7		
	2	5	3	

Current

		1	1	
		7		
	2	5	3	

2.2 There are currently 9 risks that have current scores greater than the target. This is due to some internal controls identified not being fully effective in mitigating against the risk identified. Work is continually ongoing to take action to move to fully effective controls where possible. Progress is reviewed on an ongoing basis through a number of processes. Risk management is considered and forms part of team workplans and is discussed quarterly at the Pensions Governance Group as well as being considered by the Pensions Committee.

2.3 Comparison of the current scores with the previous quarter demonstrates that following review and actions taken within the last quarter, the current risk score remains the same for all risks.

2.4 Some risks continue to have internal controls which are not considered fully effective at this time. This reflects the current processes in place and actions are currently ongoing to ensure these controls become fully effective. These include;

- Internal controls associated with processing of pension payments and lump sums and losses to the fund involve updating of documented procedures for both administration and investment activities. This work is ongoing.

- Development work on controls associated with the maintenance of Altair is also being progressed this work will also contribute to completion of a recommendation included in a recent audit report on Pensions Contributions.

- Staffing training and provision of training is currently considered as partially effective at this time. This reflects the fact that following a recent and current recruitment process, newly recruited team members will continue to require training for a period of time.

2.5 It should also be noted that in some instance controls are fully effective but external influences and factors can impact on the control and lead to a change in the effectiveness.

2.6 Taking account of the controls in place, there are currently 7 risks classed as insignificant, 10 classed as low risks and 2 risks are identified as medium.

2.7 The Risk Register provided at Appendix 1 provides full details of each of the risks, the associated impact, the risk factors, and the controls in place to mitigate against the risk. The current risk score reflects the position as at March 2024.

2.8 Following the recent audit of Risk Management arrangements for the Pension Fund, some progress has been made in dealing with the actions identified. Dialogue is taking place with the Council's Risk Management Co-ordinator to help improve the recording of risks in Ideagen and the presentation for reporting in the future.

2.9 The risks have been updated to be measured using the PESTELO model which means assessing the impact and likelihood of the risk against the following categories; Political, Environmental, Social, Technological, Legal, and Organisational. Considering the risk in these terms allows for a more thorough and consistent assessment.

2.10 Ideagen has been updated and actions have been assigned to risks where internal controls are ineffective. These actions are designed to help move the controls to fully effective once implemented. Recording all this information in Ideagen, produces a fairly lengthy document as the risk register. Therefore, work is ongoing to adapt the standard reporting to enhance it for Committee to reduce the volume and improve the presentation.

2.11 It is recognised that there has been 3 major pieces of work concluded in the last quarter, namely the Actuarial Valuation, Funding Strategy Statement and Investment Strategy. These items are identified as internal controls therefore the conclusion of these items means the controls remain fully effective.

2.12 The recent audit of Risk Management arrangements for the Pension Fund did make recommendations including the review of the Risk Management Manual and Risk Appetite. Given the workload associated with the valuation and investment strategy these actions have not been fully progressed by the original deadline. This is reflected in the audit report which is a separate report on this agenda. These have a revised completion date of 31 May 2024.

3.0 Conclusions

3.1 The Risk Register sets out the original, target and current risk scores for all risks identified. This is reviewed on a regular basis and scores updated to reflect the effectiveness of internal controls.

3.2 Regular reporting will continue to be provided to committee, recognising changes in scores and any new risks identified. Additional information has been added to the risk register to provide further clarification.

List of Appendices

1. Pension Fund Risk Register

Background Papers

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

- LGPS Risk Management Policy, Superannuation Fund and Pensions Sub-Committee and Fife Pension Board May 2019
- Risk Management Review Superannuation Fund and Pensions Committee and Fife Pension Board September 2021
- Risk Management Quarterly Update Pensions Committee March 2023

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Fife Pension Fund Risk Register

Generated on: 19 March 2024

🔴	High
⚠️	Medium
⚠️	Low
✅	Insignificant

🔴	Not Effective
⚠️	Partially Effective
✅	Fully Effective

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Non-availability of Altair pension system. • ORACLE payroll system key staff or error omission. • Lack of availability of information and payment from AVC provider etc. **There is a risk that:** • We do not process pension payments and lump sums on time. **Which could result in:** • Retiring members being paid late which may have implications for their own finances. • Reputational risk for the Fund. • Financial cost to the fund if interest has to be paid to members.	• Retiring members will be paid late which may have implications for their own finances. • Reputational risk for the Fund. Financial cost to the fund if interest has to be paid to members.	• Non-availability of Altair pension system, • ORACLE payroll system key staff or error omission, • Availability of information and payment from AVC provider etc.	Laura C Robertson	12	BC plans covering the F&CS Directorate regularly updated.	6	3	17 Nov 23
					Robust maintenance and update of Altair			
					Hosted contractual arrangement for Altair including Disaster Recovery Plan and Business Continuity Plan			
					Sufficient staff cover arrangements			
					Staff training and development and checking of work			
					Robust maintenance and update of ORACLE.			
					Hosted contractual arrangement for ORACLE including Disaster Recovery Plan and Business Continuity Plan			
					Comprehensive documented procedures and guides			
					Information and Funds received from AVC providers received on a timeous basis			
Current Impacts								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Non-availability of Authority Financials system • No key staff • Errors and/or omissions • Failure of employers' financial systems • Failure to communicate with employers effectively • Failure of employer to provide required information. **There is a risk that:** • We fail to collect and account for contributions from employers and employees on time **Which could result in:** • Adverse audit opinion for failure to collect contributions by 19th of month. • Potential delays to employers' FRS17, FRS102 and IAS19 year-end accounting reports.	• Adverse audit opinion for failure to collect contributions by 19th of month Potential delays to employers' FRS17,FRS102 and IAS19 year-end accounting reports	• Non-availability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. • Failure of employer to provide required information.	Laura C Robertson	9	Robust maintenance and update of Altair Sufficient staff cover arrangements Staff training and development and checking of work Ongoing communication with employers Regular monitoring of cash flow Robust maintenance and update of ORACLE. Comprehensive documented procedures and guides Maintenance and monitoring of spreadsheets ensuring contributions are paid within 19 days of pay day. Budgetary control reports are prepared which estimate the costs and income based on trends of previous years. These provide indicative information to monitor financial management of the fund.	3	3	17 Nov 23
Current Impacts	Financial Consequences							

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Contributions from employees/employers being too low • Failure of investment strategy to deliver adequate returns • Significant increases in longevity, etc. **There is a risk that:** • We are unable to meet liabilities as they fall due. **Which could result in:** • Immediate cash injections being required from employers or increased contribution rates	• Immediate cash injections would be required from employers or increased contribution rates.	• Contributions from employees/employers too low • Failure of investment strategy to deliver adequate returns • Significant increases in longevity, etc.	Laura C Robertson	12	Funding Strategy Statement identifies how employers liabilities are best met going forward and contributions are updated in line with funding strategy which is based on a risk approach. Admitted have their own set contribution as determined by the risk based funding strategy and reflective of their own liabilities.	4	4	17 Nov 23
					Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due			
					Full Actuarial Valuation undertaken every 3 years.			
					Ongoing advice from investment consultants etc			
					Regular monitoring of cash flow			
Current Impacts								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Fire • Bomb • Flood • Pandemics • flu epidemic • strike action etc. **There is a risk that:** • We are unable to keep service going due to loss of main office, computer system or staff. **Which could result in:** • Temporary loss of ability to provide service.	• Temporary loss of ability to provide service.	• Fire • Bomb • Flood • Pandemics • Flu epidemic • Strike action etc.	Laura C Robertson	12	BC plans covering the F&CS Directorate regularly updated. Robust maintenance and update of Altair Hosted contractual arrangement for Altair including Disaster Recovery Plan and Business Continuity Plan	6	4	17 Nov 23
Current Impacts								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Fraud or misappropriation of funds by an employer, employee, agent or contractor **There is a risk that:** • We lose funds through Fraud or Misappropriation. **Which could result in:** • Financial loss to the fund.	• Financial loss to the fund	• Fraud or misappropriation of funds by an employer, employee, agent or contractor	Elaine Muir	12	Regular monitoring of cash flow Internal and external audit regularly test that appropriate controls are in place and working effectively Regulatory control reports from investment managers, custodian, etc are also reviewed by audit. Due diligence is carried out when a new Fund Manager is appointed. Reliance is also placed on Financial Conduct Authority registration Performance monitored on an ongoing quarterly basis Newsletter for Pension Scheme members Annual Employer Forum Internal Policies and Procedures in place. National Fraud Initiative	6	3	17 Nov 23
Current Impacts	Financial Consequence - loss to the fund							

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Scheme liabilities increase disproportionately as a result of increased longevity • Falling bond yields • Changing retirement patterns, etc. **There is a risk that:** • Employers become unable to participate in scheme due collapse of private contractors and other bodies admitted into the Fund. **Which could result in:** • Fund maturing more quickly.	• Fund matures more quickly	Scheme liabilities increase disproportionately as a result of: • increased longevity • falling bond yields • changing retirement patterns, etc.	Elaine Muir	6	Ongoing communication with employers	3	3	17 Nov 23
					Funding Strategy Statement identifies how employers liabilities are best met going forward and contributions are updated in line with funding strategy which is based on a risk approach. Admitted have their own set contribution as determined by the risk based funding strategy and reflective of their own liabilities.			
					Full Actuarial Valuation undertaken every 3 years.			
					Due diligence is carried out when a new Fund Manager is appointed.			
					Employer Covenant issued by Actuary following actuarial assessment to allow admitted bodies access to the Fund.			
					Maintenance and monitoring of spreadsheets ensuring contributions are paid within 19 days of pay day.			
Current Impacts	Financial Consequences							

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Poor economic conditions. • Incorrect investment strategy. • Poor performance of investment managers. **There is a risk that:** • There are significant rises in employer contributions due to poor/negative investment returns. **Which could result in:** • Poor/negative investment returns leading to increased employer contribution rates.	• Poor/negative investment returns leading to increased employer contribution rates.	• Poor economic conditions, incorrect investment strategy. Poor performance of investment managers	Elaine Muir	16	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due Ongoing advice from investment consultants etc Performance monitored on an ongoing quarterly basis Diversified range of investment managers over different asset classes Strategic Investment advice from Independent Advisors	3	3	17 Nov 23
Current Impacts	Financial consequences							

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • The financial collapse of the global custodian. • Failure to safeguard assets or records. **There is a risk that:** • There is a failure of Global Custodian. **Which could result in:** • Financial loss to the fund. • Loss of information.	• Financial loss to the fund. Loss of information.	• Financial collapse of global custodian or failure to safeguard assets or records.	Elaine Muir	5	IT contacts are managed and reviewed in line with industry best practice. Performance monitored on an ongoing quarterly basis Legal agreement with Custodian Credit Rating monitored on an ongoing basis Regulated by Financial Services Authority Assets not on Custodian balance sheet Annual review meeting which takes place to discuss and ensure contractual obligations have been fulfilled.	4	4	01 March 24
Current Impacts	Financial Consequences							

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • The Market sector falling substantially. **There is a risk that:** • The Investment Manager fails to manage equities and other investments. • Council's management of the contract with Investment manager. **Which could result in:** • Financial loss to the fund.	• Financial loss to the fund	• Market sector falls substantially	Elaine Muir	4	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due Ongoing advice from investment consultants etc Due diligence is carried out when a new Fund Manager is appointed. Performance monitored on an ongoing quarterly basis Diversified range of investment managers over different asset classes Strategic Investment advice from Independent Advisors	3	3	17 Nov 23
Current Impacts	Financial Consequences							

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Lack of technical expertise/staff resources to research regulations • IT systems not updated to reflect current legislation, etc **There is a risk that:** • We fail to comply with LGPS and other Regulations. **Which could result in:** • Wrong pension payments are made, or estimates given. • New scheme and regulations are not fully known therefore staff will be unfamiliar.	• Wrong pension payments made or estimates given. • New scheme and regulations not fully known therefore staff will be unfamiliar	• Lack of technical expertise/staff resources to research regulations • IT systems not updated to reflect current legislation, etc	Laura C Robertson	9	Staff training and development and checking of work		6	2	17 Nov 23
					Ongoing advice from investment consultants etc				
					Internal and external audit regularly test that appropriate controls are in place and working effectively				
					Regulatory control reports from investment managers, custodian, etc are also reviewed by audit.				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Verification process in place within Pensions section, ongoing staff training undertaken.				
					Provision of training				
					Strategic Investment advice from Independent Advisors				
					Consultation with Peer Groups				
					In the short term advice can be sought				
					Altair configured based on processes which are aligned to legislation ensuring compliance				
					iConnect allows verification of records from ORACLE to Altair				
					Working in collaboration with other funds on investment matters. Relationships formed with professional advisors, other funds and networks. These relationships allow the team to keep up to date with developments and changes to legislation and regulation as well as discussing and agreeing best practice.				
Current Impacts	Financial Consequences as a result of incorrect decision making								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Insufficient security of data Inadequate data retention policy • Backup and recovery **There is a risk that:** • We fail to hold personal data securely. **Which could result in:** • Data lost. • Reputational damage.	• Data lost or compromised Reputational risk.	• Insufficient security of data Inadequate data retention policy, backup and recovery procedures.	Laura C Robertson	6	Data Protection Act procedures adhered to and all staff have completed appropriate mandatory DPA training		3	3	17 Nov 23
					Secure communications channels in place				
					System access controlled				
					Altair complies with the appropriate ISO standards require by a hosted system				
Current Impacts									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Poor or non-existent notification of by employers of new starts • Amendments • Leavers, etc. **There is a risk that:** • We fail to keep pension records up to date and accurate. **Which could result in:** • Incorrect records leading to incorrect estimates being issued. • Potentially incorrect pensions being paid.	• Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid	• Poor or non-existent notification of by employers of new starts, amendments, leavers, etc.	Laura C Robertson	9	Robust maintenance and update of Altair		6	3	17 Nov 23
					Ongoing communication with employers				
					Verification process in place within Pensions section, ongoing staff training undertaken.				
					Robust maintenance and update of ORACLE.				
					iConnect allows verification of records from ORACLE to Altair				
					Members self-service gives members the opportunity to check and update their own records				
Current Impacts									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Lack of training. • continuous professional development. • Turnover of members **There is a risk that:** • Committee and board members have inadequate knowledge and understanding. **Which could result in:** • Detrimental decisions made in relation to the Pension Fund and management of the fund.	• Detrimental decisions made in relation to the Pension Fund and management of the fund	• Lack of training and continuous professional development.	Elaine Muir	8	Provision of training		9	4	18 March 2024
					Strategic Investment advice from Independent Advisors				
					Consultation with Peer Groups				
					Attendance at events/webinars				
Current Impacts	Financial Consequences								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • The specialist nature of work, there are relatively few experts in investments and the LGPS regulations. • Staff illness • Staff turnover **There is a risk that:** • We over rely on key officers. **Which could result in:** • a knowledge gap. • difficulty recruiting staff.	• If an officer leaves or falls ill knowledge gap may be difficult to fill.	• Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.	Laura C Robertson	16	Sufficient staff cover arrangements Staff training and development and checking of work Ongoing advice from investment consultants etc Consultation with Peer Groups Key officers transfer specialist knowledge to colleagues In the short term advice can be sought Working in collaboration with other funds on investment matters. Relationships formed with professional advisors, other funds and networks. These relationships allow the team to keep up to date with developments and changes to legislation and regulation as well as discussing and agreeing best practice.	6	3	17 Nov 23
Current Impacts								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Lack of clear communication of policy and actions particularly with employers and scheme members. There is a risk that: • We fail to communicate properly with stakeholders. Which could result in: • Scheme members not aware of their rights resulting in bad decisions • Employers not aware of regulations, procedures, etc.	Scheme members not aware of their rights resulting in bad decisions Employers not aware of regulations, procedures, etc.	Lack of clear communication of policy and actions particularly with employers and scheme members	Laura C Robertson	8	Pensions website		2	2	17 Nov 23
					Regular updates for employers				
					Newsletter for Pension Scheme members				
					Annual Employer Forum				
Current Impacts									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • Non attendance due to: • Scheduling of meetings • Other commitments of elected members • Adverse weather conditions • Illness • Lack of connectivity for virtual meetings **There is a risk that:** • The committee will not have a quorum able to meet and undertake the business scheduled to be considered at the meeting. **Which could result in:** • Meetings not going ahead and decision making is delayed to subsequent meetings resulting in delay in implementation of any proposals or policy matters.	• Meetings do not go ahead and decision making is delayed to subsequent meetings resulting in delay in implementation of any proposals or policy matters.	• Non attendance could be as a result of: • Scheduling of meetings • Other commitments of elected members • Adverse weather conditions • Illness • Lack of connectivity for virtual meetings	Elaine Muir	12	Standing Orders - As required by the Act and Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014 Committee Workplan Committee dates agreed in advance Virtual Meetings The Administering Authority are required to prepare and approve a Pension Board Constitution setting out the roles, responsibilities of the Pension Board and its governance arrangements	4	4	17 Nov 23
Current Impacts								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • a cyber security attack. **There is a risk that:** • data is compromised and not secure and systems do not operate. **Which may result in:** • fraud. • sharing of personal details. • theft of personal details. • Scams. • not being able to provide service as systems compromised.	• Members may not be paid. • Members could have personal details stolen and used for criminal offences. • Fraud of pension fund from use of personal details. • Reputational risk for the fund.	• Cyber security attack could compromise the system and the data held in the system resulting in security breaches, noncompliance with legislation, potential fraud and criminal offences. • Attacks could also mean the system cannot be used and as a result a service cannot be provided.	Elaine Muir	20	Maintenance of an ICT Strategy that correctly identifies and addresses the key challenges to delivering the information and technology required to support the delivery of services by Fife Council.		12	6	17 Nov 23
					Ensuring adequate provision is made for identified critical systems including, where necessary, secondary processing location in the case of the primary one failing and associated recovery procedures.				
					Corporate board has effective oversight of ICT for Fife Council and agrees strategic direction and policies to be applied to ensure ICT remains aligned, effective and secure.				
					IT contacts are managed and reviewed in line with industry best practice.				
					Process of gateway reviews which ensures that ICT and digital solutions are secure, sustainable, economical and compliant to the agreed standards and regulations.				
					There are established processes for reporting and investing all forms of security and Major incidents and lessons are learned from the outcomes.				
					All significant proposed changes to the network, hardware and software are reviewed for potential impact on the infrastructure and to ensure there are contingency rollback options identified before they can go ahead.				
					Tools are in place (including SCOM, Solarwinds) actively monitor Fife Council's infrastructure with the intention of fixing issues before they become faults. Also improves understanding of where faults are so that they can be resolved quickly.				
					Implement the Scottish Cyber Resilience Public Sector Action Plan. This sets out the key actions that the Scottish Government, public bodies and key partners will take to further enhance cyber resilience in Scotland's public sector. **https://www.gov.scot/publications/cyber-resilience-strategy-scotland-public-sector-action-plan-2017-18/pages/2/**				
					The strategy sets out our approach to keeping software up to date balancing the benefits of security fixes and minor upgrades against the risks of the patches impacting adversely on other elements of our infrastructure. The enhanced requirements for PSN compliance raises the importance of getting security fixes rolled out effectively.				
					The Information Governance Working Group includes senior managers from across Fife Council and is responsible for ensuring Fife Council's compliance in matters relating to data protection, information governance and records management. The Group will provide annual reports to the SIRO. The approach ensures that senior management across all Directorates have appropriate visibility of, and involvement in, IRM strategy development and decision making.				
					Certificates of compliance with Cyber Essentials scheme and ISOs from Software suppliers				
					Cloud Hosting				
					Cyber Essentials Training				
Current Impacts	Financial Consequence								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: • the Fund entering into investment management agreements with Lothian Pension Fund as a fund manager. **There is a risk that:** • there is a conflict of interest in terms of the shared services agreement and arrangements in place for investment advice **Which may result in:** • reduced level of independence in advice being given.	Potential impacts identified for this risk include:- • decisions not made on independent advice • poor investment decisions • reduced level of returns • lack of diversified investments	• Market conditions • Performance of mandates • Lack of Investment Strategy	Elaine Muir	9	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due	2	2	17 Nov 23
					Regulated by Financial Services Authority			
					Strategic Investment advice from Independent Advisors			
					Diversified range of investment managers over different asset classes			
					Agreement sets out information outlining how LPFI limited will undertake portfolios management.			
					Document that sets are all Investment Management arrangements with LPFI Limited and documenting the relationship with existing memorandum of understanding.			
					Outlines the objectives, investment style, policies, monitoring and ESG arrangements for the mandate. This is reviewed by the independent advisers on an annual basis or more frequently if requested.			
					Performance monitored on an ongoing quarterly basis by Independent Advisors			
Current Impacts								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
Inflationary Increase			Elaine Muir	16	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due	6	4	07 February 2024
					Regular monitoring of cash flow			
					Strategic Investment advice from Independent Advisors			
					Budgetary control reports are prepared which estimate the costs and income based on trends of previous years. These provide indicative information to monitor financial management of the fund.			
					Diversified range of investment managers over different asset classes			
Current Impacts								