

## Pensions Committee

Committee Room 2 (FHM05.002), 5th Floor, Fife House, North Street, Glenrothes



Thursday, 28 September, 2023 - 2.00 p.m.

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### AGENDA

Page Nos.

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST** – In terms of Section 5 of the Code of Conduct, members of the Committee are asked to declare any interest(s) in particular items on the agenda and the nature of the interest(s) at this stage.
3. **MINUTES -**
  - (a) Minute of meeting of Pensions Committee of 23 June 2023; 4 – 8
  - (b) Minute of meeting of the Fife Pension Board of 23 June 2023; and 9 – 11
  - (c) Minute of meeting of Pensions Committee of 30 June 2023. 12 – 13
4. **CHANGE OF COMMITTEE MEMBERSHIP** – The Committee is asked to note that Councillor Jane Ann Liston had been appointed as a member of the pensions committee, replacing Councillor Sean Dillon.
5. **FIFE PENSION FUND - FINAL OUTTURN 2022-2023** – Report by the Head of Finance. 14 – 18
6. **FIFE PENSION FUND ANNUAL AUDIT REPORT AND AUDITED ACCOUNTS** – Report by the Head of Finance
  - (a) Report by the Head of Finance; 19 – 21
  - (b) ISA 580 Covering Letter Fife Council Pension Fund; 22 – 25
  - (c) Fife Pension Fund Annual Audit Report 2022-23; and 26 – 82
  - (d) Fife Pension Fund Annual Report and Accounts 2022-23 83 - 167
7. **FIFE PENSION FUND - BUSINESS PLAN UPDATE TO 30 JUNE 2023** – Report by the Head of Finance. 168 – 184
8. **RISK MANAGEMENT QUARTERLY REVIEW** – Report by the Head of Finance. 185 – 208
9. **FRAUD AND IRREGULARITY - AUDIT SCOTLAND'S ANNUAL REPORT 2022/23** – Report by the Head of Finance. 209 – 226
10. **PENSION COMMITTEE WORKPLAN** – Report by the Head of Finance. 227 – 231

## **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.

- |   |                                  |           |
|---|----------------------------------|-----------|
| <b>11. FIFE PENSION FUND INVESTMENT UPDATE</b>  | – Report by the Head of Finance. | 232 – 238 |
| <b>12. FIFE PENSION FUND ACTUARIAL VALUATION 31 MARCH 2023</b>                                    | – Report by the Head of Finance. | 239 – 275 |
| <b>13. FIFE PENSION FUND ACTUARIAL VALUATION 31 MARCH 2023 - CONTRIBUTION STABILITY MECHANISM</b> | – Report by the Head of Finance. | 276 – 287 |

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

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21 September, 2023

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## **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.**

**23 June 2023**

**10.00 am – 12.30 pm**

**PRESENT:** Committee - Councillors Dave Dempsey (Convener), David Alexander, Lynn Mowatt, Sarah Neal, Nicola Patrick, Gordon Pryde and Jonny Tepp.

Fife Pension Board - Councillor Tom Adams, Councillor Lynn Ballantyne-Wardlaw, Ian Dawson, Gail Dunn; Robert Graham and Vicki Wyse.

**ATTENDING:** Eileen Rowand, Executive Director of Finance and Corporate Services; Elaine Muir, Head of Finance; Laura Robertson, Finance Operations Manager; Pamela Redpath, Service Manager - Audit and Risk Management Services; Anne Bence; Accountant; John Mackie, Team Manager - Transactions Team; Karen Balfour, Lead Officer - Banking and Investment; Martin Kotlewski, Service Manager - BTS Solutions and Service Assurance and Wendy MacGregor, Committee Officer, Legal and Democratic Services.

**ALSO ATTENDING:** Rob Bilton, Actuary, Hymans Robertson LLP; Albert Chen, Portfolio Manager and Bruce Miller, Chief Investment Officer, Lothian Pension Board; John McCallum, Glasgow City Council and Clare Scott, Independent Professional Observer.

**APOLOGIES FOR ABSENCE:** Committee - Councillors Colin Davidson and Sean Dillon.

Fife Pension Board - Ross Hugh and Colin Paterson.

**51. DECLARATIONS OF INTEREST**

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

**52. MINUTE**

The Committee considered:-

- (a) the minute of the meeting of the Pensions Committee of 28 March 2023.

**Decision**

The Committee agreed to approve the minute of the Pensions Committee meeting of 28 March 2023.

- (b) the Fife Pension Board comments arising from the meeting on 28 March 2023.

**Decision**

The Committee:-

- (1) noted the comments from the Fife Pension Board from the meeting of the Pensions Committee on 28 March 2023; and
- (2) requested any suggestions for avenues in which the Pension Fund could invest locally, preferably within Fife, be submitted to the Head of Finance, with the caveat that the investment must be able to generate a return.

**53. UPDATE ON 2022/23 FIFE PENSION FUND INTERNAL AUDIT PLAN AND 2022/23 ISSUED AUDIT REPORTS**

The Committee considered a report by the Service Manager, Audit and Risk Management Services providing an update on progress towards delivering the 2022/23 Pension Fund Internal Audit Plan and summary of findings from the Internal Audit Reports finalised since the last meeting of the Pensions Committee.

**Decision**

The Committee:-

- (1) noted the contents of the report; and
- (2) acknowledged the update on progress towards delivery of the 2022/23 Internal Audit Plan at Appendix A to the report and summary of findings at Appendix B to the report.

**54. COST TRANSPARENCY AND CEM BENCHMARKING**

The Committee considered a report by the Head of Finance providing an annual update in respect of Cost Transparency for Fife Pension Fund, detailing the disclosure in the Annual Report and Accounts and participation in the Cost Transparency Initiative (CTI). Also included in the report were details of the Fund's results from the annual CEM Benchmarking.

**Decision**

The committee noted the contents of the report.

**55. PENSION FUND TRAINING AND DEVELOPMENT**

The Committee considered a report by the Head of Finance which reviewed performance and progress in respect of implementation of the training policy for members of the Pensions Committee and Fife Pension Board and highlighted the requirement for all pension committee and board members to undertake the Pension Regulator online learning toolkit.

**Decision**

The Committee:-

- (1) noted that a varied training programme had been provided over the last financial year on a range of topics;

## 2023 PEC 26

- (2) noted the requirement for members of the Committee and the Board to meet the minimum level of 14 hours training ;
- (3) agreed to undertake the required level of training and to provide details of doing so, including the Pension Regulators toolkit; and
- (4) noted that options in respect of adherence to the training policy would be considered at a future meeting.

### 56. **EXTERNAL QUALITY ASSESSMENT (EQA) OF FIFE COUNCIL'S AUDIT SERVICES**

The Committee considered a report by the Service Manager, Audit and Risk Management Services presenting a report by Aberdeenshire Council's Chief Internal Auditor on the External Quality Assessment of Fife Council's Audit Services.

#### **Decision**

The Committee noted the content of the External Quality Assessment report, submitted to Fife Council's Standards, Audit and Risk Committee meeting on 25 May 2023.

### 57. **RISK MANAGEMENT - QUARTERLY REVIEW**

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

#### **Decision**

The Committee:-

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

### 58. **PENSIONS COMMITTEE WORK PROGRAMME**

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:-

- (1) the agenda planning document; and
- (2) that Fife Pension Board would consider formalising a workplan for the Board's reporting structure, that could be fed into the Committee reporting cycle.

## 2023 PEC 27

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.

### 59. COST TRANSPARENCY

The Committee considered a report by the Head of Finance, which complemented the previous report considered at Paragraph 54 above – Cost Transparency and CEM Benchmarking - and provided a more detailed analysis of the Pension Fund Management Costs by providing a breakdown per manager.

#### Decision

The Committee:-

- (1) noted the contents of the report; and
- (2) noted the actions taken in respect of fees.

### 60. FIFE PENSION FUND INVESTMENT UPDATE

The Committee considered a report by the Head of Finance providing an overview of the Fund's investments and performance at 31 March 2023. A verbal update highlighting any exceptional items following manager monitoring activity was provided.

#### Decision

The Committee noted:-

- (1) the Fund's strategic asset allocation and current allocations relative to target;
- (2) the value of the Fund's assets on 31 March 2023 after returning 2.7% over the quarter;
- (3) that the Fund was making steady progress towards its target allocations; and
- (4) that longer term absolute returns were strong and relative returns were above both the asset and liability benchmarks.

*The Committee adjourned at 11.40 am and reconvened at 11.50 am.*

### 61. FIFE PENSION FUND ACTUARIAL VALUATION 31 MARCH 2023 - ASSUMPTIONS

The Committee considered a report by the Head of Finance outlining progress in relation to the triennial actuarial valuation and provided the planned timeline to ensure that the valuation was completed and agreed by the statutory deadline of 31 March 2024. The report also outlined work done on reviewing valuation assumptions and the recommended approach to assumption setting.

**Decision**

The Committee: -

- (1) noted the work carried out in preparation for the actuarial valuation as at 31 March 2023; and
- (2) agreed the recommended assumptions set out on page 3 of Appendix 1 to the report, as listed below, which included an amendment to the recommendation for the Assumption - Discount rate, to read – ‘in excess of 1.9% above the risk free rate’:-

<b>Assumption</b>	<b>Recommendation</b>
Future Investment return	Based on Hymans Robertson ESS model updated to latest market condition
Discount rate	In excess of 1.9% above the risk free rate
CPI inflation	Based on Hymans Robertson ESS model
Salary Increases	Retain 0.5% above CPI
Baseline longevity	Based on club vita analysis updated to reflect non-COVID experience
Future improvements in longevity	Updated to CMI 2021 model with 10% weight on 2020 & 2021 data with long term improvement of 1.5%
Demographic assumptions	Adopt Hymans proposed demographic assumptions



## **Fife Pension Board Meeting**

Minute of the hybrid meeting held on Friday 23 June, 2023, Committee Room 2, Floor 5, Fife House, Glenrothes.

12.40 – 1.05 pm

- PRESENT:** Robert Graham, Union Rep (Chair); Councillors Tom Adams and Lynn Ballantyne-Wardlaw, Fife Council Employer Reps; Ian Dawson, Union Rep; and Vicky Wyse, Fife Sports and Leisure Trust (FSLT) Employer Rep.
- ALSO ATTENDING:** Clare Scott, Independent Professional Observer (IPO) and Wendy MacGregor, Committee Officer, Legal and Democratic Services.
- APOLOGIES FOR ABSENCE:** Gail Dunn Fife College Employer Rep; Ross Hugh, Union Rep (Secretary) and Colin Paterson, Union Rep.

### **1. DECLARATIONS OF INTEREST**

No declarations of interest were submitted.

### **2. LGPS COMMITTEE DECISIONS**

The Board:-

- (1) agreed that they were content with decisions made at the Pensions Committee meeting on 23 June 2023, and
- (2) there were no decisions that would require to be reviewed.

### **3. MINUTE OF THE PENSIONS COMMITTEE 28 MARCH 2023**

The Board noted the minute was approved.

### **4. MINUTE OF THE PENSIONS BOARD 28 MARCH 2023**

The Board noted:-

- (1) that matters arising from the minute would be followed up by Committee;
- (2) investment and fiduciary requirements, interest in how these will pull through; and
- (3) in regard to para 6(a), any suggestions for avenues in which the Pension Fund could invest locally, preferably within Fife, should be submitted to the Head of Finance, with the caveat that the investment must be able to generate a return.

### **5. UPDATE ON 2022/23 FIFE PENSION FUND INTERNAL AUDIT PLAN AND 2022/23 ISSUED AUDIT REPORTS**

The Board noted the 2022/23 Internal Audit Plan and 2022/23 Issued Audit reports and had no further comments.

### **6. COST TRANSPARENCY AND CEM BENCHMARKING**

The Board noted the report and agreed that it would be beneficial to receive detail relating to asset class for reference, detailed in forthcoming reports.

### **7. PENSION FUND TRAINING AND DEVELOPMENT**

The Board advised they were content with the training review and noted:-

- (1) the requirement for members to complete 14 hours of training per annum;

- (2) a request from Robert Graham, Chair, for members to commit to complete 14 hours of training in the near future;
- (3) members could contact Clare Scott, IPO prior to Pensions Committee meetings to discuss any matters requiring clarity or for further advice; and
- (4) any training requirements identified and deemed appropriate would be considered and should be discussed with the Robert Graham, Chair.

#### **8. EXTERNAL QUALITY ASSESSMENT (EQA) OF FIFE COUNCIL'S AUDIT SERVICES**

The Board noted the report and had not further comments.

#### **9. RISK MANAGEMENT - QUARTERLY REVIEW**

The Board:-

- (1) acknowledged the contents of the report;
- (2) were satisfied to learn that there had been no previous major breaches relating to cyber security incidents and were content with the procedures and processes being implemented to reduce the risks to cyber security on Council systems;
- (3) agreed with the comments from the meeting, that targets should be achievable;
- (4) noted that targets would be reviewed as part of the internal audit process; and
- (5) were satisfied that processes would be documented to ensure business continuity.

#### **10. PENSIONS COMMITTEE WORK PROGRAMME**

The Board

- (1) noted the Committee reporting workplan; and
- (2) agreed to consider the introduction of a workplan for the Board that would feed in to the Committee reporting cycle.

#### **11. COST TRANSPARENCY (CONFIDENTIAL REPORT)**

The Board:-

- (1) noted the content of the report; and
- (2) welcomed that complex detailed information would be simplified for easier understanding.

#### **12. FIFE PENSION FUND INVESTMENT UPDATE (CONFIDENTIAL REPORT)**

The Board:-

- (1) noted the content of the report; and
- (2) raised a concern on new areas of investment and how Local companies or projects interesting in investing in the Pension fund, would be governed? Clarity would be required from the Head of Finance as to whether this would be managed by the Investment Strategy.

**13. FIFE PENSION FUND ACTUARIAL VALUATION 31 MARCH 2023 – ASSUMPTIONS (CONFIDENTIAL REPORT)**

The Board:-

- (1) noted the work carried out in preparation for the actuarial valuation as at 31 March 2023; and
- (2) agreed with the recommended assumptions, approved by the Committee.

**14. ANY OTHER BUSINESS**

The Board:-

- (1) noted that an Appointment process and Conflict of interest policy for Fife Pension Board were being considered by Officers and that the Board and Clare Scott (IPO) would receive the draft documents for comments;
- (2) agreed to prepare and submit an annual report for the Fife Pension Board in 2024; and
- (3) noted Clare Scott (IPO) would circulate Pension Board Annual Reports from other Local Authorities for reference.

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

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

**30 June 2023**

**2.00 pm – 3.20 pm**

**PRESENT:** Committee - Councillors Dave Dempsey (Convener), David Alexander, Lynn Mowatt, Sarah Neal, Gordon Pryde and Jonny Tepp.

Fife Pension Board - Gail Dunn, Robert Graham, Ross Hugh and Vicki Wyse.

**ATTENDING:** Eileen Rowand, Executive Director – Finance and Corporate Services; Elaine Muir, Head of Finance; Laura Robertson, Finance Operations Manager; Pamela Redpath, Service Manager - Audit and Risk Management Services; Anne Bence, Accountant; Helena Couperwhite, Service Manager - Committee Services and Wendy MacGregor, Committee Officer, Legal and Democratic Services.

**ALSO ATTENDING:** Nick Bennett, Engagement Lead, Azets and Albert Chen, Portfolio Manager, Lothian Pension Fund.

**APOLOGIES FOR ABSENCE:** Committee – Councillors Colin Davidson, Sean Dillon and Nicola Patrick.

Fife Pension Board - Councillors Tom Adams and Lynn Ballantyne-Wardlaw, Ian Dawson and Colin Paterson.

**62. DECLARATIONS OF INTEREST**

No declarations of interest were submitted in terms of Standing Order No.22.

**63. 2022/23 INTERNAL AUDIT ANNUAL REPORT**

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

**Decision**

The Committee noted the contents of the report.

**64. ANNUAL GOVERNANCE STATEMENT**

The Committee considered a report by the Chief Executive presenting the Pension Fund Annual Governance Statement for inclusion in the Pension Fund Annual Report and the annual accounts. The report also included background detail on the processes adopted in preparation of the Pension Fund Annual Governance Statement, the Governance Statement was appended to the report for approval.

**Decision**

The Committee:-

- (1) noted the contents of the report; and
- (2) approved the draft Pension Fund Governance Statement, attached as an appendix to the report.

**65. FIFE PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS**

The Committee considered a report by the Executive Director, Finance and Corporate Services presenting the unaudited Annual Report and Accounts for Fife Pension Fund for the financial year 2022 to 2023.

**Decision**

The Committee:-

- (1) considered and noted the unaudited Annual Report and Accounts for Fife Pension Fund for the financial year 2022-23;
- (2) commended the Head of Finance and staff across the Finance Service, for their contribution and input during a challenging period and for the timeous production of the Draft Fife Pension Fund Accounts.

**66. 2023/24 INTERNAL AUDIT PLAN**

The Committee considered a report by the Service Manager, Audit and Risk Management Services presenting the Fife Pension Fund's Internal Audit Plan for the 2023/24 financial year.

**Decision**

The Committee approved the 2023/24 Internal Audit Plan as detailed at Appendix A to the report.

**67. PENSION ADMINISTRATION - PERFORMANCE MONITORING REPORT**

The Committee considered a report by the Head of Finance providing monitoring information on the performance of the Pensions Administration Team including an update on other activities undertaken by the team over the quarter to 31 March 2023.

**Decision**

The Committee:-

- (1) acknowledged the level of quarterly performance relative to the target and to the same quarter of the previous year;
- (2) noted the range of additional activities carried out by the team over the last quarter; and
- (3) approved the proposed set of Key Performance Indicators (KPIs) which would be presented for 2023-24, as detailed at Appendix B to the report.

28 September 2023

Agenda Item No. 5

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## **Fife Pension Fund - Final Outturn 2022-23**

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

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**Wards Affected:** N/A

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### **Purpose**

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The purpose of this report is to provide the committee with details of the final outturn position of the Pension Fund for 2022-23.

### **Recommendation(s)**

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The committee is asked to:-

- Note the final outturn for 2022-23

### **Resource Implications**

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Throughout 2022-23, the fund remained cash-flow positive from activities dealing with members with a net addition of £18.610m experienced. The fund experienced a net addition of £0.996m as management expenses were lower than the net addition from dealing with members. The fund experienced a decrease in value of £111.189m due to changes in market conditions.

### **Legal & Risk Implications**

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There are no direct legal implications arising from this report.

### **Impact Assessment**

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

### **Consultation**

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None

## 1.0 Background

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- 1.1 The report presents the final outturn position for 2022-23 for the Pension Fund, provides commentary on the budget compared to the position for the year and analysis of significant variances. The outturn position is extracted from the Annual Report and Accounts which are subject to a separate report on this agenda.
- 1.2 The report is intended to present the revenue account of the fund, however, it should be noted that some items of income and expenditure are exceptionally difficult to predict and therefore some of the variances are out with the control and influence of the Pension Fund.

## 2.0 Final Outturn 2022-23

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- 2.1 Appendix 1 details the 2022-23 final outturn compared to budget estimates. The appendix shows a net decrease in the Fund of £111.189m, an adverse variance from budget of £265.349m. Some of the main issues which contribute to this variance are detailed below.
- 2.2 **Contributions received from Employers / Employees**  
Contributions received were greater than budgeted by £5.276m. The budget was estimated based on the contributions received as at the end of June 2022. The budget also reflected an estimated pay increase of 2.5%, however, the pay award for the main employer in the fund settled at an average increase of 6.91%, which results in an increased level of contributions made to the Fund. Further, the additional contributions from Employers in the year is £2.460m less than budget. These contributions vary year on year and are dependent on the number of retirements which result in a strain on the fund which required to be reimbursed.
- 2.3 **Pension Payments**  
Pension Payments in the year were also greater than budget by £0.928m. As with the contributions budget, this budget was set using the pensions paid as at the end of June 2022 but variations in the number of people retiring and level of payments during the year has resulted in this variance.
- 2.4 **Pension Lump Sum Benefits**  
Lump Sum Benefits were greater than budgeted levels by £2.207m. This budget is included as a guide to members of the likely costs and is based on previous year trend analysis. The actual costs incurred are dependent on the circumstances of each individual employee. The costs being greater than budget are consistent with increased level of pensions payments.
- 2.5 **Transfers to and from other Schemes**  
Transfers to other Schemes are lower than budgeted by £2.150m. These budgets are very difficult to predict with any accuracy, and again are included as a guide based the fund experience in previous years. There have been no significant transfers in 2022-23.
- 2.6 **Administrative Costs**  
Overall, there is a slight overspend on Administrative Costs of £0.069m because of an increased level of pay award for staff compared to that included in the budget.

## 2.7 Oversight and Governance Costs

There is a slight underspend in this area of £0.129m, because of a reduced level of costs being charged by advisers compared to the budgeted level.

## 2.8 Investment Management Expenses

These costs have been subdivided into 4 parts: -

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

Both management fees and performance related fees are linked to market values and increase or decrease in line with the investment returns, therefore the budget was based on previous years trends coupled with information contained in Cost Transparency templates.

For the financial year 2022-23 Management fees are greater than the budgeted level by £3.374m. There has been an increase in the number of cost transparency templates from fund managers submitted which in turns means there is improved disclosure, and these have been accounted for in the correct place. Therefore, the actual costs present a more reflective picture than the budget resulting in an overspend.

The Transaction costs are less than originally anticipated. These costs vary from portfolio to portfolio depending on the type of investment managed. In line with the current investment strategy, there has been disinvestment from some portfolios which has resulted in a reduction of costs in 2022-23.

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

## 2.9 Investment Income

There is a significantly favourable variance in terms of Investment Income of £19.196m. This is in the main because of increased investment in the real asset policy group which generates increased returns and distributions. Further the increased level of interest earned on cash has also contributed to the variance.

## 2.10 Net Returns on Investment

This heading represents the profit and losses on disposal of investment and changes in the market value of investments. This is dependent largely on the performance of financial markets and it is impossible to budget accurately. The value of the fund's holdings decreased by £157.042m resulting in an overall net decrease on investments of £112.185m compared to a budget return of £152.960m.

The reason for the negative return is as a reduction in market value of £271.295m partially offset by profits on disposals of investments of £114.252m



## 3.0 Conclusions

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- 3.1 The outturn for 2022-23 shows net increase to the fund of £0.996m from the dealings with members and a net decrease on investments of £112.185m, resulting in a provisional net decrease in the value of the Fund of £111.189m.

### List of Appendices

1. Appendix 1 – 2022-23 Final Outturn

### Background Papers

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

### Report Contact

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**Fife Pension Fund  
2022-23 Final Outturn**

	Note	2022-23 Budget	2022-23 Final Outturn	2022-23 Variance
		£m	£m	£m
<b>Dealings with members, employers and others directly involved in the fund</b>				
Contributions Received		(112.720)	(117.996)	(5.276)
Additional Contributions from Employers		(2.810)	(0.350)	2.460
Transfers from Other Schemes		(2.660)	(1.867)	0.793
		(118.190)	(120.213)	(2.023)
Pension Payments		75.500	76.428	0.928
Lump Sum Benefits		20.340	22.547	2.207
Refund of Contributions		0.230	0.316	0.086
State Premium Schemes		0.010	0.003	(0.007)
Transfers to Other Schemes		4.460	2.310	(2.150)
		100.540	101.603	1.063
<b>Net (additions)/withdrawals from dealings with members</b>		<b>(17.650)</b>	<b>(18.610)</b>	<b>(0.960)</b>
<b>Administrative Costs</b>				
Support Service Costs		1.710	1.775	0.065
Interest Paid on Benefits		0.020	0.059	0.039
Income Tax on Contributions and Benefits		0.110	0.084	(0.026)
Other Administrative Costs		0.010	0.001	(0.009)
<b>Oversight and Governance Costs</b>				
Actuarial Fees		0.150	0.088	(0.062)
External Audit Fees		0.040	0.040	0.000
Hermes Equity Ownership Fees		0.090	0.090	0.000
Investment Consultant Fees		0.260	0.193	(0.067)
Other Oversight and Governance Fees		0.080	0.080	0.000
<b>Investment Management Expenses:-</b>				
Management Fees		8.650	12.024	3.374
Performance Related Fees		0.880	0.915	0.035
Custody Fees		0.110	0.175	0.065
Transaction Costs		4.340	2.094	(2.246)
<b>Net (additions)/withdrawals including fund management expenses from dealing with members</b>		<b>(1.200)</b>	<b>(0.996)</b>	<b>0.204</b>
<b>Returns on investments</b>				
Investment Income		(26.090)	(45.286)	(19.196)
Taxes on income		0.230	0.429	0.199
(Profit) and losses on disposal of investments and changes in the market value of investments	1	(127.100)	157.042	284.142
<b>Net return on investments</b>		<b>(152.960)</b>	<b>112.185</b>	<b>265.145</b>
<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(154.160)</b>	<b>111.189</b>	<b>265.349</b>
Opening net assets of the scheme at 1 April 2022		3,531.319	3,531.319	
Net (increase)/decrease in the Fund		(154.160)	111.189	265.349
<b>Closing net assets of the scheme at 31 March 2020</b>		<b>3,377.159</b>	<b>3,642.508</b>	<b>265.349</b>

**Note 1**

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

(Profit) or Loss on the disposal of investments	£m
Changes in Market Value	(114.252)
	271.295
	<u>157.043</u>

28 September 2023

Agenda Item No. 6

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## **Fife Pension Fund - Annual Audit Report and Audited Accounts**

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

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**Wards Affected:** All

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### **Purpose**

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This report contains the Audited Accounts for Fife Pension Fund for 2022-23, as well as the Annual Audit Report. This report also provides a brief response to the External Auditor's report to the Pensions Committee and the Controller of Audit.

### **Recommendation**

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It is recommended that Members approve the Audited Accounts for signature and note the positive report by Azets, the Council's and Fund's External Auditors, and the management response.

### **Resource Implications**

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None.

### **Legal & Risk Implications**

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None.

### **Policy & Impact Assessment**

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None.

### **Consultation**

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None.

## 1.0 Background

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

## 2.0 Issues

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- 2.1 Fife Pension Fund has a good record of delivering Financial Statements which the Council's External Auditor agrees give a true and fair view of the Pension Fund's financial position. This year is no exception and in overall terms the audit report is positive, particularly considering the challenging circumstances in which the Fund has operated.
- 2.2 The auditor's opinion in relation to the financial statements is unqualified and this means the auditor has concluded that the accounts give a true and fair view of the financial position of the Fife Pension Fund, its assets and liabilities, for the year ended 31 March 2023 and that the accounts have been properly prepared in accordance with relevant legislation and accounting regulations. The auditor found no material weaknesses in the accounting and internal control systems.
- 2.3 The auditor has identified no issues in relation to the Financial Statements in relation to unadjusted misstatements.
- 2.4 The auditor has made a total of two recommendations in respect of working papers used in preparation of the annual accounts and assurance reports on controls at a service organisation. Both these recommendations are graded medium.
- 2.5 In respect of working papers, the auditor has recommended that officers provide a greater degree of challenge of the information prepared by Northern Trust. This is accepted and will be actioned for future year end accounts processes.
- 2.6 As regards assurance reports, the auditor has recommended that these are sought from the software supplier, Heywood Pension Technologies. Officers have accepted this recommendation and intend to extend their requests for assurance to include internal control reports.
- 2.7 There are 5 brought forward recommendations of which 3 are complete. Two remain ongoing and are being addressed.
- 2.8 Officers have provided responses including timeframes to the recommendations made.

## 3.0 Conclusions

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

### Report Contact

Elaine Muir  
Head of Finance  
Fife House

Email: [elaine.muir@fife.gov.uk](mailto:elaine.muir@fife.gov.uk)

Documents attached:

ISA 580 Covering Letter Fife Pension Fund

Fife Pension Fund Annual Audit Report 2022-23

Fife Pension Fund Annual Report and Accounts 2022-23

Azets Audit Services  
Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

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**Head of Finance**

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elaine.muir@fife.gov.uk

21<sup>st</sup> September, 2023

Dear Sirs

**Fife Pension Fund  
Financial Statements for the year ended 31 March 2023**

This representation letter is provided for the purpose of expressing an opinion as to whether Fife Pension Fund's (the Fund) financial statements present a true and fair view, in all material respects, in accordance with applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

I confirm that to the best of my knowledge and belief having made such inquiries as I considered necessary for the purpose of appropriately informing myself:

**Financial Statements**

- i. I have fulfilled my responsibilities for the preparation of the Fund's financial statements in accordance with applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code), for being satisfied that they give a true and fair view and for making accurate representations to you.
- ii. I have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The financial statements are free of material misstatements, including omissions.
- iv. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

- v. I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and I believe that I have appropriately fulfilled these responsibilities.
- vi. The methods, data and significant assumptions used by us in making accounting estimates, including those measured at fair value, are appropriate to achieve recognition, measurement and disclosure that is reasonable in the context of the applicable financial reporting framework. I am satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vii. I have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities as at 31 March 2023 reflected in the financial statements.
- viii. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Fund has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- ix. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of applicable law and accounting standards.
- x. All events subsequent to the date of the financial statements and which require adjustment or disclosure have been adjusted or disclosed.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of UK adopted international accounting standards, and as interpreted and adapted by the Code.
- xii. I believe that the Fund's financial statements should be prepared on a going concern basis. I do not expect the Fund to demise in its current organisational form; however, my basis for going concern acknowledges that if that situation arose the services would be transferred to another body. I believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

#### **Information Provided**

- xiv. I have provided you with:
  - a. access to all information of which I am aware that is relevant to the preparation of the Fund's financial statements such as accounting records, and all other records requested;
  - b. additional information that you have requested from us for the purpose of your audit; and

- c. unrestricted access to persons within the Fund (via remote arrangements where necessary), from whom you determined it necessary to obtain audit evidence.
- xv. I have communicated to you all deficiencies in internal control of which management is aware.
- xvi. All transactions undertaken by the Fund have been recorded in the accounting records and are properly reflected in the financial statements.
- xvii. I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xviii. I have disclosed to you all information in relation to known fraud or suspected fraud that I am aware of and that affects the Fund and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xix. I have disclosed to you all information in relation to instances of, or allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xx. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxi. I have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which I am aware.
- xxii. I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- xxiii. I acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as I am aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you are aware of that information.

### **Management Commentary**

- xxiv. The disclosures within the Management Commentary fairly reflect my understanding of the Fund's financial and operating performance over the period covered by the financial statements.



**Annual Governance Statement**

xxv. I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Fund’s risk assurance and governance framework and I confirm that I am not aware of any significant risks or weaknesses in governance or internal control that are not disclosed within the AGS.

**Governance Compliance Statement**

xxvi. I am satisfied that the Governance Compliance Statement fairly reflects the Fund’s compliance with best practice guidance issued by Scottish Ministers.

Yours faithfully

Signature:.....

Name: Eileen Rowand

Position: Executive Director Finance and Corporate Services

Date.....

# Fife Pension Fund

## 2022/23 Annual Audit Report to the Members of the Pensions Committee and the Controller of Audit

September 2023



# Table of Contents

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Key messages	3
Introduction	8
Annual report and accounts audit	10
Wider Scope	23
Appendices	43

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# Key messages

## Financial statements audit



<b>Audit opinion</b>	<p>Our independent auditor's report is unqualified in all regards.</p> <p>This is however subject to completion of the following audit work:</p> <ul style="list-style-type: none"><li>• benefits payable testing</li><li>• journals testing</li></ul>
<b>Key audit findings</b>	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>Fife Council, as Administering Authority, had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
<b>Audit adjustments</b>	<p>One adjustment was made to the unaudited financial statements. This adjustment was following receipt of updated information on investment management expenses. This adjustment did not impact on the reported closing net assets of the scheme.</p> <p>No unadjusted differences were identified.</p> <p>Some disclosure and presentational adjustments were made to the unaudited annual report and accounts.</p>



**Accounting systems and internal controls**

We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Fund's processes and internal controls relating to the financial reporting process.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we include these in this report. No material weaknesses or significant deficiencies were noted.

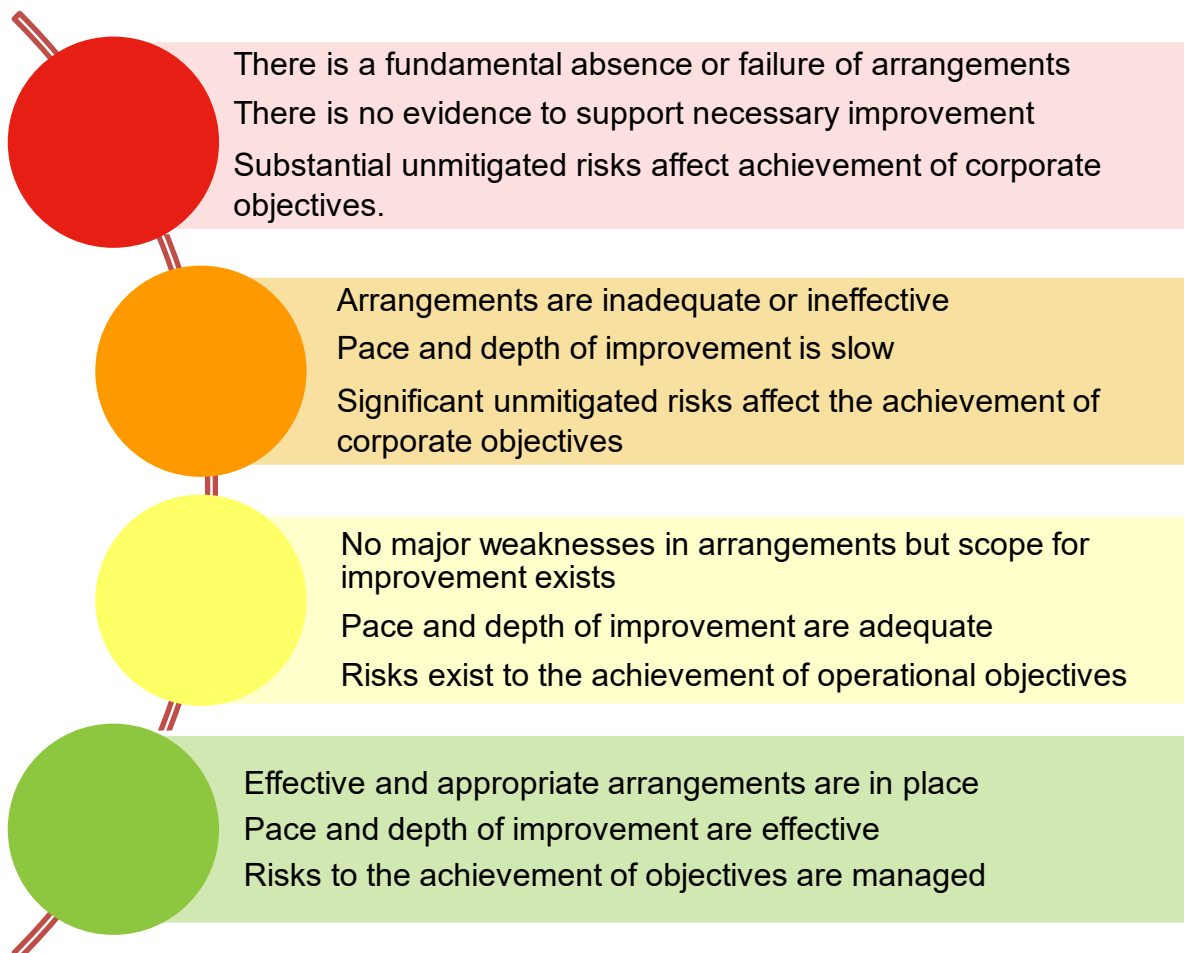
## Wider scope

<p><b>Financial Management</b></p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Fife Pension Fund has effective arrangements for financial management and the use of resources.</p> <p>In 2022/23, the value of the Fund’s net assets decreased to £3.420billion; a decrease of £111million on 2021/22. The most significant impact on the outturn position was due to the changes in market value of investments.</p>
<p><b>Financial sustainability</b></p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services and the way in which they should be delivered.</p>	<p><b>Auditor judgement</b></p> <p>Risks exist to the achievement of operational objectives </p> <hr/> <p>Fife Pension Fund has appropriate arrangements in place to ensure ongoing financial sustainability.</p> <p>Over the coming year, two significant pieces of work will be carried out. The Fund will be working on the valuation process and the results throughout the calendar year. The work on the valuation will be carried out in tandem, alongside the Investment Strategy, as there are synergies between the two.</p> <p>It is anticipated that the funding level of the Fund will be higher than reported at the 31 March 2020 funding valuation due partly to the significant rise in interest rates which reduces the value placed on the Fund’s liabilities.</p>

<p><b>Vision, Leadership and Governance</b></p> <p>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Pension Board and Pensions Committee continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.</p>
<p><b>Use of Resources to Improve Outcomes</b></p> <p>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.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>The Fund has appropriate performance management processes in place that support the achievement of value for money in the use of resources.</p> <p>Annual investment performance to March 2023 was weaker than in previous year. Performance, however, was above the benchmark. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods.</p>

## Definition

We 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.





# Introduction

The annual audit comprises the audit of the annual report and accounts, and the wider-scope audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Pensions Committee at the outset of our audit. We have not made any subsequent changes to the risks outlined in that plan.

## Responsibilities

The Fund is responsible for preparing its annual report and accounts, including financial statements which show a true and fair view, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

## Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

## Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.



Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

## Openness and transparency

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

# Annual report and accounts audit

## Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	<p>The annual report and accounts are due to be considered and approved by the Pensions Committee on 28 September 2023.</p> <p>Our independent auditor's report is unqualified in all regards.</p> <p>One adjustment was made to the unaudited financial statements. This adjustment was following receipt of updated information on investment management expenses. This adjustment did not impact on the reported closing net assets of the scheme.</p> <p>We received the unaudited annual report and accounts and supporting papers of a good standard in line with our audit timetable. Further information and revisions were provided promptly where required.</p> <p>Our thanks go to the Fife Council staff for their assistance with our work.</p>

Opinion	Basis for opinion	Conclusions
<p>Going concern basis of accounting</p>	<p>When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Fund's functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Fund.</p>	<p>We reviewed the financial forecasts for 2023/24. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Fund will continue to operate for at least 12 months from the signing date. Our audit opinion is unqualified in this respect.</p>
<p>Opinions prescribed by the Accounts Commission:</p> <ul style="list-style-type: none"> <li>• Management Commentary</li> <li>• Annual Governance Statement</li> <li>• Governance Compliance Statement</li> </ul>	<p>We plan and perform audit procedures to gain assurance that the Management Commentary, Annual Governance Statement and the Governance Compliance Statement are prepared in accordance with:</p> <ul style="list-style-type: none"> <li>• statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary);</li> <li>• the Delivering Good Governance in Local Government: Framework (Annual Governance Statement); and</li> <li>• The Local Government Pension Scheme (Scotland) Regulations</li> </ul>	<p>We have concluded that:</p> <ul style="list-style-type: none"> <li>• the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with relevant statutory guidance.</li> <li>• the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework.</li> <li>• the information given in the Governance Compliance Statement is consistent with the financial statements and that report has been prepared in accordance with The Local</li> </ul>

Opinion	Basis for opinion	Conclusions
	2018 (Governance Compliance Statement)	Government Pension Scheme (Scotland) Regulations 2018.
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept; or</li> <li>the financial statements are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>	We have no matters to report.

## An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Pensions Committee in March 2023. The plan explained that we follow a risk-based approach to audit planning 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 (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

## Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the ‘Key Audit Matters’), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the financial statements is not modified with respect to any of the risks described below.

## Significant risks 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.

Risk area	Management override of controls
<p><b>Significant risk description</b></p>	<p>Management of any entity is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk will vary from entity to entity, this 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 on all audits.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p><b>Inherent risk of material misstatement:</b> Very High</p>
<p><b>How the scope of our audit responded to the significant risk</b></p>	<p><b>Key judgement</b></p> <p>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals.</li> </ul>

Risk area	Management override of controls
	<ul style="list-style-type: none"> <li>Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals.</li> <li>Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and appropriate processing in line with the Fund's journals policy.</li> <li>Gaining an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud.</li> <li>Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<p><b>Key observations</b></p>	<p>We did not identify any indication of management override of controls from our audit work. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.</p>

## Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue recognition
<p><b>Significant risk description</b></p>	<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed inherent risk on every audit unless it can be rebutted.</p> <p>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.</p> <p>Income recognised in the Fund’s accounts relates to contributions received from member bodies and transfers in from other pension funds. Given the nature of this income we rebutted this risk.</p>

Key risk area	Fraud in non-pay expenditure
<p><b>Significant risk description</b></p>	<p>As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements.</p> <p>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.</p> <p>We perform separate tailored testing on benefits payable and therefore rebutted this risk.</p>



Key risk area	Investment valuations (key accounting estimate)
<p><b>Significant risk description</b></p>	<p>The Funds held net investments of £3.534billion as at 31 March 2022, of which 45% (£1.595billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets.</p> <p>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.</p> <p><b>Inherent risk of material misstatement:</b></p> <p>Investments (valuation, existence): High</p>
<p><b>How the scope of our audit responded to the significant risk</b></p>	<p><b>Key judgements</b></p> <p>There is the potential for management to use their judgement to influence the values within the financial statements.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the fund managers and the scope of their work.</li> <li>• Evaluated the competence, capabilities and objectivity of the fund managers.</li> <li>• Considered the basis on which the valuation is carried out and the challenge in the key assumptions applied.</li> <li>• Tested the information used by the fund managers to ensure it is complete and consistent with our understanding.</li> <li>• Ensured that the year end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct..</li> </ul>
<p><b>Key observations</b></p>	<p>We gained reasonable assurance over the valuation of investments at year end and are satisfied that investments</p>

<b>Key risk area</b>	<b>Investment valuations (key accounting estimate)</b>
	and investment transactions are fairly stated in the financial statements.
<b>Key risk area</b>	<b>Present Value of Retirement Obligations (key accounting estimate)</b>
<b>Significant risk description</b>	<p>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 assumptions used are not appropriate.</p> <p><b>Inherent risk of material misstatement:</b> Retirement obligations (valuation): High</p>
<b>How the scope of our audit responded to the significant risk</b>	<p><b>Key judgements</b></p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Reviewed the controls in place to ensure that the data provided to the actuary is complete and accurate.</li> <li>• Considered the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.</li> <li>• Agreed the disclosures in the financial statements to information provided by the actuary.</li> </ul>
<b>Key observations</b>	We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness.

Key risk area	Present Value of Retirement Obligations (key accounting estimate)
	<p>We have considered the competence, capability and objectivity of the actuary in line with the requirements of <i>ISA (UK) 500 Audit Evidence</i>. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.</p>

## Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. 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 users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Fund and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality was £53 million. On receipt of the 2022/23 unaudited financial statements, we reassessed materiality and updated it to £51.3million. We consider that our updated assessment has remained appropriate throughout our audit.

	<b>Materiality</b> £million
<b>Overall materiality for the financial statements</b>	51.300
<b>Performance materiality</b>	38.475
<b>Trivial threshold</b>	0.250

<b>Materiality</b>	<p>Our initial assessment is based on approximately 1.5% of the Fund’s net assets as disclosed in the unaudited financial statements. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the Fund.</p>
<b>Performance materiality</b>	<p>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.</p> <p>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.</p>
<b>Trivial misstatements</b>	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In accordance with Audit Scotland’s planning guidance this should not exceed £250,000.</p>

## Special materiality for dealings with members

Our initial assessment of materiality for dealing with members was £5.7million. On receipt of the 2022/23 unaudited financial statements, we reassessed materiality and updated it to £5.65 million. We consider that our updated assessment has remained appropriate throughout our audit.

	<b>Materiality £million</b>
<b>Dealings with members materiality</b>	5.700
<b>Performance materiality</b>	4.2375
<b>Trivial threshold</b>	0.250
<b>Materiality</b>	We apply a 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 asset-based materiality to them. Our initial assessment is based on approximately 5% of the Fund’s 2022/23 gross expenditure as disclosed in the unaudited financial statements. We consider this to be the principal consideration for the users of the annual accounts when assessing the Fund’s dealings with members.
<b>Performance materiality</b>	Using our professional judgement, we have calculated performance materiality at approximately 75% of overall materiality.

## Audit differences

One adjustment was made to the unaudited financial statements. This adjustment was following receipt of updated information on investment management expenses. This adjustment did not impact on the reported closing net assets of the scheme. This adjustment is disclosed in Appendix 2.

No unadjusted differences were identified.

Disclosure and presentational adjustments during our audit which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

## Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control

weakness. However, where, as part of our testing, we identify any control weaknesses, we report these in Appendix 3 to this report. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We did not identify any significant control weaknesses during our audit.

## Follow up of prior year recommendations

We followed up on progress in implementing actions raised by the predecessor auditor in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 4.

## Other communications

### Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Fund.

The accounting policies, which are disclosed in the financial statements, are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

### Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall we concluded that for those key accounting estimates they were balanced and appropriate.

### Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Pensions Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

### **Non-compliance with laws and regulations**

As part of our standard audit testing, we have reviewed the laws and regulations impacting the Fund. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

### **The Local Authority Accounts (Scotland) Regulations 2014**

As part of our audit we reviewed the Fund's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 101 as they relate to the annual report and accounts.

Overall we concluded that appropriate arrangements were in place to comply with these Regulations.

### **Written representations**

We will present the final letter of representation to the Executive Director of Finance and Corporate Services to sign at the same time as the financial statements are approved.

### **Related parties**

We are not aware of any related party transactions which have not been disclosed.



### **Confirmations from third parties**

All requested third party confirmations have been received.



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<sup>1</sup> Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

# Wider Scope

<p><b>Financial Management</b></p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Fife Pension Fund has effective arrangements for financial management and the use of resources.</p> <p>In 2022/23, the value of the Fund’s net assets decreased to £3.420billion; a decrease of £111million on 2021/22. The most significant impact on the outturn position was due to the changes in market value of investments.</p>
<p><b>Financial sustainability</b></p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services and the way in which they should be delivered.</p>	<p><b>Auditor judgement</b></p> <p>Risks exist to the achievement of operational objectives </p> <hr/> <p>Fife Pension Fund has appropriate arrangements in place to ensure ongoing financial sustainability.</p> <p>Over the coming year, two significant pieces of work will be carried out. The Fund will be working on the valuation process and the results throughout the calendar year. The work on the valuation will be carried out in tandem, alongside the Investment Strategy, as there are synergies between the two.</p> <p>It is anticipated that the funding level of the Fund will be higher than reported at the 31 March 2020 funding valuation due partly to the significant rise in interest rates which reduces the value placed on the Fund’s liabilities.</p>



<p><b>Vision, Leadership and Governance</b></p> <p>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Pension Board and Pensions Committee continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.</p>
<p><b>Use of Resources to Improve Outcomes</b></p> <p>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.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>The Fund has appropriate performance management processes in place that support the achievement of value for money in the use of resources.</p> <p>Annual investment performance to March 2023 was weaker than in previous year. Performance, however, was above the benchmark. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods.</p>

## Financial management

### Financial performance

In 2022/23, the value of the Fund's net assets decreased to £3.420billion; a decrease of £111million on 2021/22. The Fund experienced a change in value of £111.189million represented by a loss in capital value of investments of £157.042million coupled with income from dividends and interest of £45.286million. The Fund also experienced a net surplus of £18.610million from dealings with members (Exhibit 1).

#### Exhibit 1 – Financial position

	£'million
<b>2021/22 Net Assets</b>	<b>3,531.319</b>
<b>Movement:</b>	
Net surplus from dealings with members	18.610
Management expenses	(17.614)
Income from dividends and interest	45.286
Taxes on income	(0.429)
Loss in capital value of investments	(157.042)
<b>2022/23 Net Assets</b>	<b>3,420.129</b>
<b>Movement (%)</b>	<b>(3.1%)</b>

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

The Fund's Investment Strategy was revised and updated to reflect the results of the actuarial valuation in 2020. An interim Investment Strategy was approved in June 2021 in recognition that the Real Asset Policy Group target would take time to reach the intended level. Following successful progress in this area and in consultation with the Joint Investment Strategy Panel (JISP) the target allocations were subsequently revised in September 2022 (Exhibit 2). The investment Strategy was updated at this time and implementation has continued throughout the year.

## Exhibit 2 – Fife Pension Fund Investment Strategy

	Interim Strategy (June 2021) %	Final Strategy (September 2022) %	Permitted Range	Actual allocation 31 March 2023 %
Equities	55	50	40 -60	49.7
Real Assets	15	20	10-30	21
Non-Gilt Debt	15	15	5-25	13.6
LDI (formerly Gilts)	15	15	5-25	12.2
Cash	0	0	0-15	3.5
Total	100	100		100

Throughout the year, the Fund undertook changes to the investment allocation as it continued to progress the implementation of its approved Investment Strategy. The Fund divested £443million from Equities, Diversified Growth Fund and Other Policy Groups with the proceeds being invested in Equities and LDI.

In addition, by working with Lothian Pension Fund Investment (LPFI), the Fund was able to participate in new Infrastructure Investment opportunities. These infrastructure investments reflect the continued implementation of the investment strategy with the Real Asset allocation now broadly in line with the strategic allocation contained in the strategy.

The Fund invests in a diversified portfolio of global assets and is therefore exposed to worldwide economic factors. Commentary was provided by advisers from LPFI and is detailed in Exhibit 3.

### **Exhibit 3: Investment markets**

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

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

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

**Source: Fife Pension Fund Annual Report & Accounts 2022-23; Investment Commentary as provided by LPFI Ltd.**

## **Financial monitoring**

An indicative budget for 2022/23 was presented to the Pensions Committee in September 2022. The budget showed a net increase of £1.2million from dealings with members and a net return on investments of £152.960million, resulting in a projected net increase in the value of the Fund of £154.160million.

As at 30 September 2022, the 2022/23 projected outturn was that the Fund would remain cash-flow positive with a net increase to the Fund of £4.567million from dealings with members and a net decrease on investments of £81.678million, resulting in a projected net decrease in the value of the Fund of £77.111million.

The financial outturn for the year showed a net decrease in the value of the Fund of £111.189million. The most significant impact on the outturn position was due to the changes in market value of investments (Exhibit 3).

Exhibit 3: Financial Outturn	2022-23 Budget	2022-23 Outturn	2022-23 Variance favourable / (adverse)
	£'million	£'million	£'million
<b>2021/22 Net Assets</b>	<b>3,531.319</b>	<b>3,531.319</b>	-
<b>Movement:</b>			
Net additions / (withdrawals) from dealing with members	17.650	18.610	0.960
Management expenses	(16.450)	(17.164)	(0.714)
Income from dividends and interest	26.090	45.286	19.196
Taxes on income	(0.230)	(0.429)	(0.199)
Profit / (Loss) in capital value of investments	127.100	(157.042)	((284.142)
<b>Net increase / (decrease) in the Fund</b>	<b>154.160</b>	<b>(111.189)</b>	<b>(265.349)</b>
<b>2022/23 Net Assets</b>	<b>3,685.479</b>	<b>3,420.129</b>	<b>(265.349)</b>

## Actuarial valuation

The present value of the retirement benefit obligations are presented as a note to the accounts. A significant increase in the discount rate has resulted in a lower obligation. This movement in the present value of retirement obligations is shown in Exhibit 4.

#### Exhibit 4 – Actuarial valuation

	Present Value of Retirement Benefits
2022/23 (£billion)	2.701
2021/22 (£billion)	4.000
Movement (%)	(48%)

Source: Fife Pension Fund Annual Report & Accounts 2022-23

#### Systems of internal control

We have evaluated the Fund's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

We did not identify any significant weaknesses in the Fund's accounting and internal control systems during our audit.

#### Prevention and detection of fraud and irregularity

We found the Fund's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

## Financial sustainability

### Funding strategy

The primary objective of the Fund is to ensure sufficient funding in the long term so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. The Funding Strategy Statement expresses the funding objective, which informs the investment strategy. The Funding Strategy Statement is reviewed at least triennially.

There are two main sources of uncertainty that affect whether the Fund holds sufficient funds to pay future pension:

- the cost of future pensions; and
- the value of investments.

These risks are managed by the Fund in the following ways:

- The risk of failing to make adequate provision for the future is managed by having an independent actuary value the liabilities of the fund every three years and set contribution rates.
- The risk of losing money on investments is managed by having an independent investment adviser review the Fund's investment strategy periodically and by diversifying assets by dividing them between several separate investment management firms, chosen to ensure a range of investment styles.

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.

Officers of the council continue to implement the investment strategy and participate in Joint Investment Strategy Panel collaborative arrangement with Lothian Pension Fund and Falkirk Pension Fund.

### Indicative budget for 2023/24

An indicative budget has been developed for 2023/24 (Exhibit 5). The budget was developed using previous years trends of expenditure which have been adjusted to reflect the estimated levels of pay awards and estimated levels of pension increases. The return on investments were set at levels as per the 2022/23 indicative budget.

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

<b>Exhibit 5: 2023/24 Indicative Budget</b>	<b>2023/24 Budget</b>
	<b>£'million</b>
<b>2021/22 Net Assets</b>	<b>3,250.255</b>
Movement:	
Net additions/ (withdrawals) from dealing with members	18.220
Management expenses	(16.500)
Income from dividends and interest	26.090
Taxes on income	(0.230)
Profit / (Loss) in capital value of investments	127.100
Net increase / (decrease) in the Fund	<b>154.680</b>
<b>2022/23 Net Assets</b>	<b>3,404.935</b>

**Source: Fife Pension Fund – Business Plan 2023-24**

## Actuarial funding levels

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

The most recent actuarial valuation was as at 31 March 2020. This valuation reported that the Fund's assets, which as at 31 March 2020, were valued at £2.356billion, were sufficient to meet 97% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2020 valuation was £72million.

### Experience over the period since 31 March 2022

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

The Fund will be working on the valuation process and the results throughout the calendar year. The work on the valuation will be carried out in tandem, alongside the Investment Strategy, as there are synergies between the two.



## Vision, leadership and governance

### Strategy and business model

The Pension Fund's Funding Strategy Statement explains that the fund has a long-term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due.

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 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 Pensions Committee.

A Business Plan has been developed for the first time in 2023/24. The Plan sets out the day-to-day business of the Fund as well as the proposed improvements and development work being undertaken. It is intended that the Business Plan will inform the basis for various reports presented to the Pensions Committee throughout the year. This means that reports on the quarterly performance reporting, update on team activity and budget monitoring should be consistent with the approved Business Plan.

As the first Business plan developed for the Fund it is intended that this will be used as a basis for developing future business plans 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.

### Governance arrangements

Fife Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in Fife. The main functions of the Administering Authority are the management and investment of the assets of the Fund and administration of the scheme benefits. Fife Council carries out its role as Administering Authority via:

- The Pensions Committee: delegated responsibility by Fife Council for maintaining the Fund.
- The Fife Pension Board: assists Fife Council in ensuring compliance with legislation and ensuring efficient and effective governance and administration of the scheme.
- The Joint Investment Strategy Panel (JISP).
- Finance & Corporate Services Directorate and the Pensions Governance Group (PGG).

In September 2021, Fife Council appointed an Independent Professional Observer (IPO) to provide support and guidance to both members of the Pensions Committee and Pensions Board to assist them in discharging their duties in relation to the Pension Fund.

The Pensions Committee is responsible for setting the high-level investment strategy and delegates the implementation of that strategy to the Executive Director Finance and Corporate services, who delegates this to the Head of Finance.

In March 2023, the Pension Board's Constitution was revised. The main changes to the constitution included:

- Fife Council providing administrative support to facilitate Pension Board meetings;
- Clarification on conflicts of Interest, substitutes and training requirements;
- The quorum for a meeting shall be 4, comprising a minimum of 2 employer representatives and 2 member representatives; and
- The Pension Board will produce an annual report to be included in the Fund's annual report.

The Pensions Team, responsible for ensuring that benefits are paid accurately and on time and to provide clear information on the benefit options available to help members plan for retirement, is accountable to the Pensions Committee, Pension Board, scheme employers and members.

Both the Pensions Committee and Head of Finance receive advice from the Joint Investment Strategy Panel (JISP) which comprises FCA qualified investment professionals from the Lothian Pension Fund as well as two independent advisors. This arrangement supports the collaborative relationship between Fife, Falkirk and Lothian Pension Funds, which entails the Lothian Fund, through its investment vehicle, LPFI Limited to provide investment support.

Throughout 2022/23 the relationship with LPFI Limited expanded to increase the use of LPFI's internal investment management capabilities with LPFI Limited now acting as a Fund Manager for some of the investment portfolios.

The PGG is an officer's group, chaired by the Head of Finance, with primary purpose to provide assurance to the Pensions Committee and Pensions Board through the monitoring of the requirements measured by the Pensions Regulator's Code of Practice No.14 and reviewing and managing risk. A risk register is maintained by the PGG with quarterly updates presented to the Pensions Committee.

### **Meetings of those charged with governance**

Throughout 2022/23, the Fund has maintained all aspects of fund governance, including its regular schedule of meetings.

Through our review of committee papers, we are satisfied that there continued to be effective scrutiny, challenge and informed decision making through the year.

## Administration review

In 2021, the Fund initiated a review of its scheme administration. An internal review was followed by an independent review carried out by Hymans Robertson. The aim of the review was to ensure that the Pensions Team continues to meet its service requirements to members and employers. The Fund recognised that service delivery is set against a backdrop of LGPS complexity, increased governance and reporting requirements, and the impact of legal cases such as the McCloud ruling on pension administration functions.

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

## Governance compliance

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

In its 2022/23 Governance Compliance Statement, the Council, as Administering Authority, reported that it is compliant with all principles with the exception of training where partial compliance was recorded. Partial compliance was reported as not all members of the Pensions Committee had complied with the policy and completed the minimum training hours requirement as outlined in the policy.

A training policy was agreed by Committee which formalises the training arrangements for Committee and Pension Board members. The policy sets out the training required to ensure members have the appropriate skills to adequately carry out their roles. Induction training is provided to all new Committee and Board members.

During 2022 an assessment of training needs was carried out with new members of the Committee and the Board asked to assess their current knowledge and understanding of all relevant topics. The results of the assessment are being used as a basis for arranging future training and development sessions.

## Internal audit

An effective internal audit service is an important element of a Pension Fund's overall governance arrangements. Fife Pension Fund's internal audit service is provided by Fife Council's Audit and Risk Management Services. During our audit we considered the work of internal audit wherever possible to inform our risk assessment and our work on the governance statement.

During 2022/23 the following assurance reviews were undertaken:

- Risk management
- Cyber security
- Follow up review (Training and Resources)
- Post Audit Reviews

The annual internal audit report was presented to the Pensions Committee in June 2023. This report confirmed that the annual programme of internal audit work had been completed and that "reasonable assurance can be placed upon the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control for the year to 31 March 2023".

## Use of resources to improve outcomes

### Monitoring investment performance

The Fund has appointed a number of investment managers who are employed to invest in assets for the Fund in accordance with agreed objectives. Safeguarding of the Fund assets is undertaken by the Custodian, Northern Trust.

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

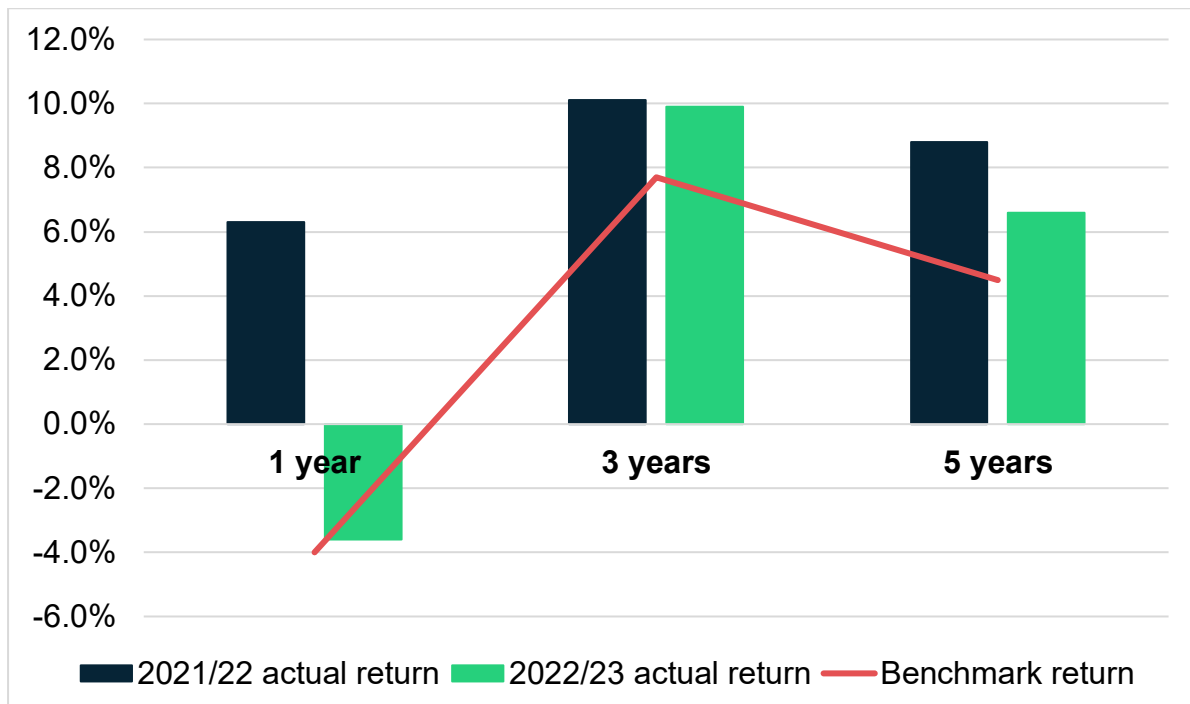
Through our review of committee papers, we are satisfied that there continued to be effective scrutiny, challenge and informed decision making through the year.

### Fund performance

#### Fife Pension Fund annual performance

Annual performance to March 2023 was weaker than in previous year, with overall annual returns of -3.62% (2022: +6.29%). Performance, however, was above the 2023 benchmark of -4.0%. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods. The Fund's performance against benchmarks and prior year are given at Exhibit 6.

#### Exhibit 6: Performance of the Fund against benchmark and prior year



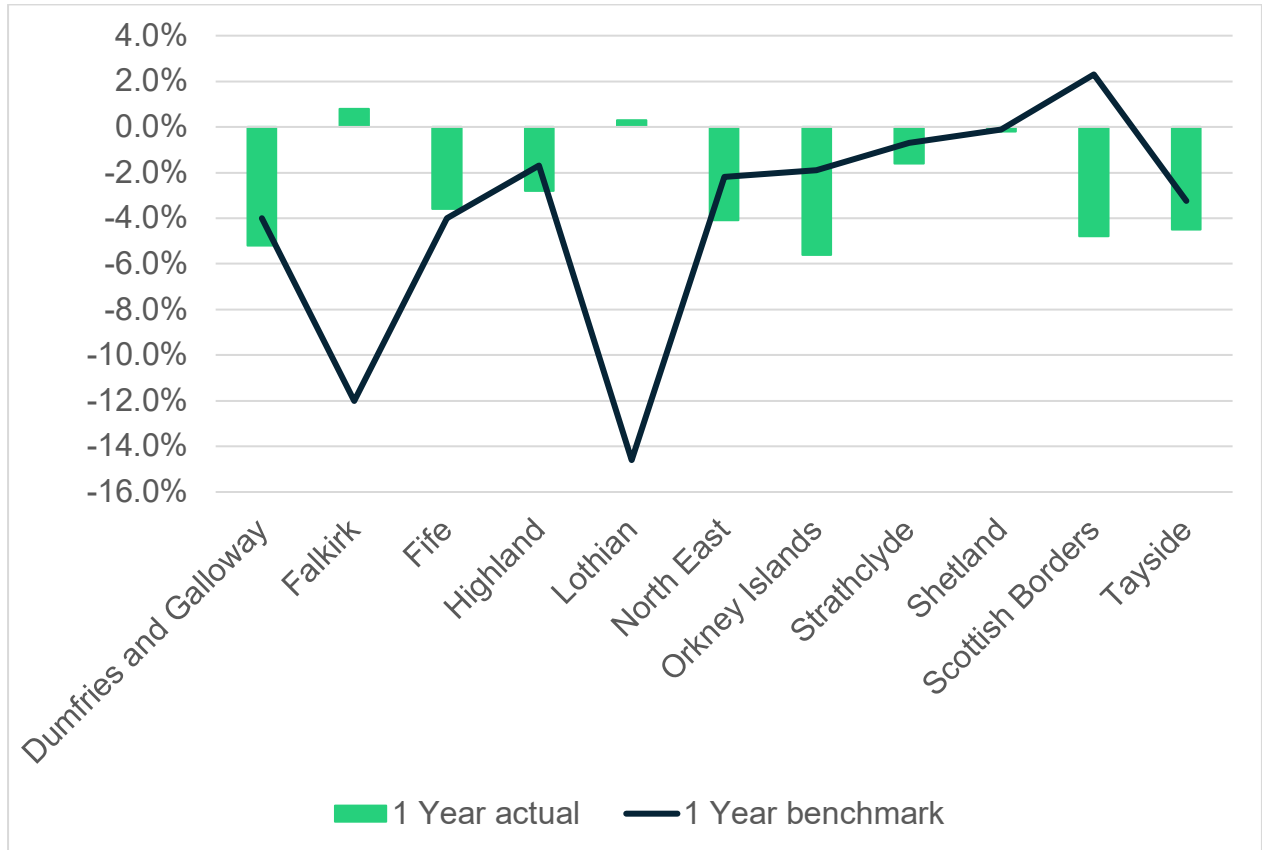
Source: Fife Pension Fund Annual Report & Accounts 2022-23

The impact of uncertain market conditions can be seen on the returns. Despite absolute performance being significantly lower than in 2021/22, the Fund’s market positioning helped the Fund outperform the annual benchmark.

**Annual returns comparison**

The Fund was one of only three LGPS to exceed annual benchmark returns. See Exhibit 7 for the Fund’s annual performance against other Scottish LGPS Schemes.

**Exhibit 7: Annual return across LGPS Scotland Funds against benchmark**

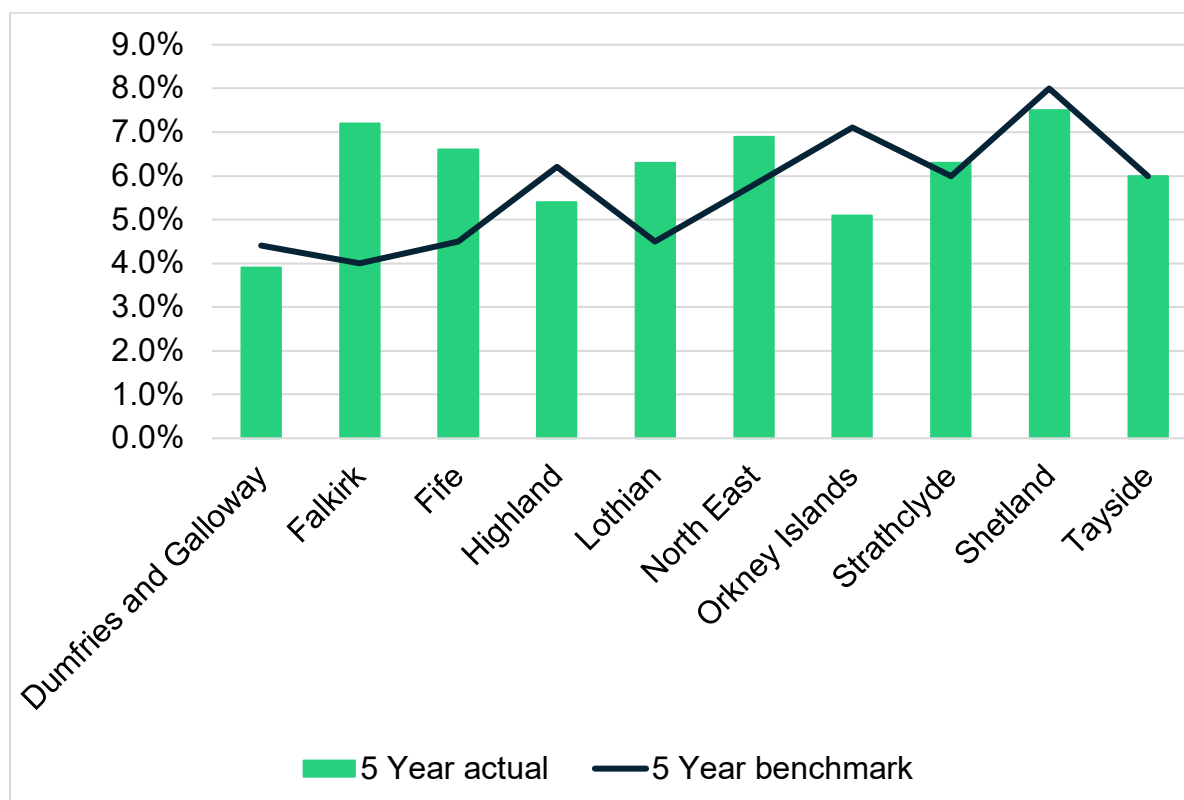


Source: Unaudited Annual Report and Accounts for LGPS Funds

### 5 year returns comparison

Comparison of the Fund’s performance against other Scottish LGPS Schemes is given in Exhibit 8.

#### Exhibit 8: Annualised 5 year returns across LGPS Scotland Funds against benchmark<sup>2</sup>



Source: Unaudited Annual Report and Accounts for LGPS Funds

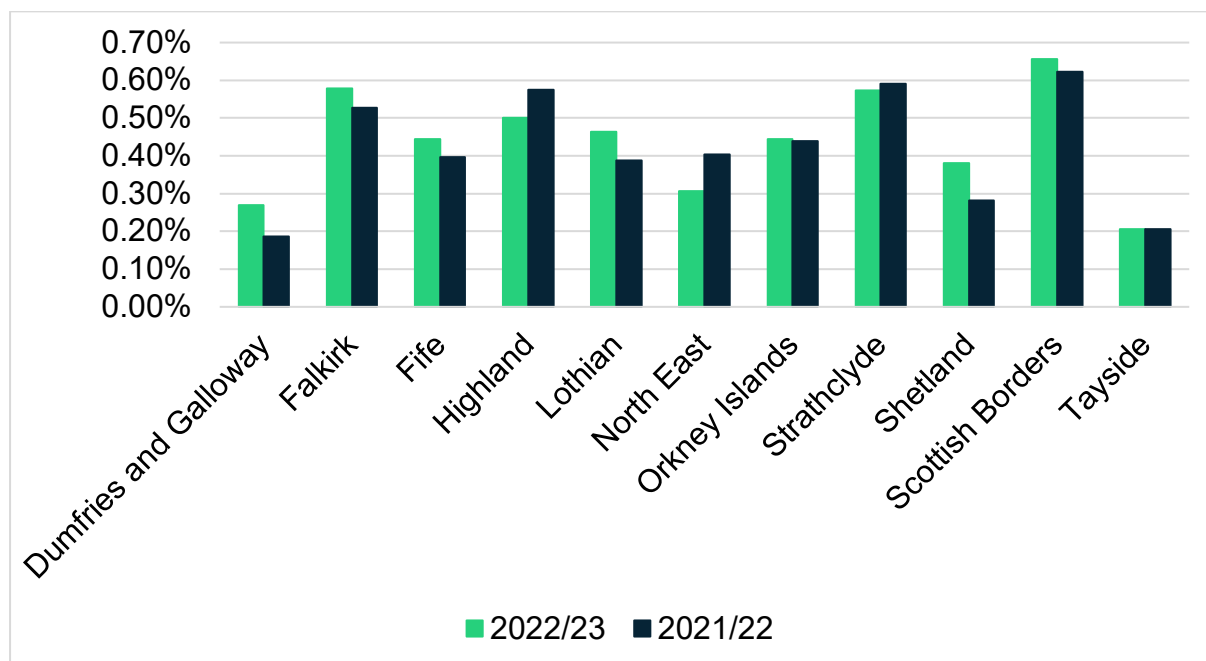
### Management expenses

The Fund reported management expenses of £17.614 million in 2022/23, an increase of 7.9% on the prior year. Management expenses are split into three main categories: administrative costs; investment management expenses and oversight and governance costs. Investment management expenses account for 86% of total management expenses.

The Fund’s investment management expenses (excluding indirect expenses), as a proportion of net assets, decreased in comparison with the prior year. The position across the Local Government Pension Funds varied as shown in Exhibit 9.

<sup>2</sup> Scottish Borders Council Pension Fund does not disclose this information in its unaudited Annual Report and Accounts and therefore is excluded from the analysis above.

### Exhibit 9 – Investment management expenses as a proportion of net assets



Source: Unaudited Annual Report and Accounts for LGPS Funds

Investment manager expenses can vary due to a number of factors including actual returns on investments and the nature of the investment assets held.

The Fund took part in a CEM Benchmarking exercise in 2021/22. The benchmarking analysis undertaken by CEM aims to provide comprehensive, like-for-like comparisons with similar funds. Investment costs are compared with other pension funds and other asset owners, inside and outside the LGPS. As well as costs, CEM also compare investment performance, asset mix, risk and funding to produce a report about how Fife Pension Fund compares with others and why the investment outcomes compare as they do.

The results for Fife are compared with 9 other LGPS Funds and 8 other funds with total assets ranging from £1.9 billion to £6.5 billion. The median size in the peer group is £3.1 billion compared with Fife Pension Fund assets of £3.4 billion as at 31 March 2022. Fife Pension Fund’s actual costs to 31 March 2022 of approximately 0.41% of average assets were below the benchmark cost of 0.48%. The difference amounts to costs below benchmark of £2.0m for the year to 31 March 2022.

CEM concluded that Fife’s investment costs were below benchmark primarily due to paying less for private market assets, offsetting the greater expense of investing in more fund of funds vehicles than peers.

The analysis indicated that Fife Pension Fund had a net total 8-year return of 9.1% which was above the LGPS median of 8.8% per annum, and in the 68th percentile of the CEM LGPS fund universe of 30 funds.



CEM results were reported to the March Joint Investment Strategy Panel where comparison with risk was considered. In the context of risk, Fife's 8-year net return was achieved with a higher level of risk (10.8%) than the median LGPS return which was achieved with an annualised standard deviation of 10.0%.

Given the aforementioned 8-year return and risk figures, Fife's 8-year return/risk ratio (units of return generated per unit of risk) was 0.84 close to LGPS median 8-year return/risk ratio of 0.88.

Costs for the year to 31 March 2022 of 0.41% have fallen since 2014/15 from 0.68%. CEM concludes the movement of 0.27% is as a result of changes to asset mix and implementation approach. CEM also report that the median cost of the CEM LGPS universe of 30 funds for the year to 31 March 2022 is 0.83%. These points suggest that the Fund is delivering its investment returns at good value for money relative to the CEM LGPS universe.

Whilst Cost Transparency and Benchmarking against peer groups is beneficial and helps employers and Pension Committees investigate and understand their respective fees and costs, care should be taken in deriving conclusions from the headline data. CEM states that "being high or low is neither good nor bad". What matters is whether a pension fund is receiving sufficient value for the costs incurred.

This is reflected in the long term returns of pension funds, net of costs.

## Administration performance

The Fund has an Administration Strategy and suite of key performance indicators (KPIs) which are reported to the Pensions Committee on a quarterly basis.

**Exhibit 10: Key Performance Indicators 2022/23**

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

**Source: Fife Pension Fund Annual Report & Accounts 2022-23**

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

The Administration Strategy was updated and approved by the Pensions Committee in September 2022. Following the approval of the updated Administration Strategy, a review of the KPIs has been carried out. This involved a review and understanding of the range of KPIs reported by other Funds, ensuring consistency of targets with the Administration Strategy, and reflecting updated target days based on experience to date. This determined that the team should expand its KPI suite to include reporting on the processing of death benefits, transfers out and divorce cases, and several additional indicators.

### Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 percent reduction in greenhouse gas emissions by 2030.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. All public bodies need to reduce their direct and indirect emissions and should have plans to do so. Many public bodies also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change.

The Auditor General and Accounts Commission are developing a national programme of audit work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, external auditors were required to gather basic information on the arrangements for responding to climate change in each body through completion of a questionnaire.

In 2021/22 the Pensions Committee approved a Statement of Responsible Investment Principles (SRIP), with an updated in March 2023. The SRIP sets out to clarify the Fund's agreed approach to Responsible Investment. It is intended that the statement will be used as a guide for investment decision making. Although not a signatory to the Principles of Responsible Investment (PRI), the Fund supports the six PRI principles. Since approval of the SRIP the Fund has joined Climate Action 100 as well as continuing to participate in the Scottish Responsible Investment Group adopting a collective approach.

Consideration and monitoring of carbon efficiency is reported to the JISP and working with Lothian has enabled details of the measures of carbon efficiency to be reported.

Although no commitment has been made to the Taskforce for Climate Related Financial Disclosure (TCFD) in Scotland to date, the Fund anticipates that there will be continued interest in climate change and that there will be requirements in Scotland to report in a similar way to that already introduced in England & Wales. The Fund intend to carry out work to research and prepare for this happening in the future.

# Appendices



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Appendix 1: Responsibilities of the Fund and the Auditor	44
Appendix 2: Audit differences identified during the audit	50
Appendix 2: Action plan	52
Appendix 4: Follow up of prior year recommendations	55

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## Appendix 1: Responsibilities of the Fund and the Auditor

### Responsibilities of the Fund

The Fund has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

Area	Fund responsibilities
<b>Corporate governance</b>	<p>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.</p>
<b>Financial statements and related reports</b>	<p>The Fund has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of the financial position of the Fund and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• 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;</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. The management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of the Fund.</li> </ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the Fund and its financial performance, including providing adequate disclosures in accordance with the applicable financial</p>

Area	Fund responsibilities
	<p>reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>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.</p>
<p><b>Standards of conduct for prevention and detection of fraud and error</b></p>	<p>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.</p>
<p><b>Financial position</b></p>	<p>The Fund is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>

## Auditor responsibilities

### Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General 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 Fund 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.

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## 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.

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## 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.

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## 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.



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## 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.

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## 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 <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223>

## Independence

The Ethical Standards and ISA (UK) 260 require us to give the Fund full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we do not have any matters to not in that regard.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Our period of total uninterrupted appointment as at the end of 31 March 2023 was one year.

## Audit and non-audit services

The total fees charged to the Fund for the provision of services in 2022/23 were as follows. Prior year charges for the predecessor auditor are also shown for comparative purposes:

	Current year £	Prior year £
Audit of Fife Pension Fund (Auditor remuneration)	£60,915	£32,240
Total audit	£60,915	£32,240
Non-audit services	-	-
Total fees	£60,915	£32,240

The 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. No non-audit services have been provided to the Fund.

## Appendix 2: Audit differences identified during the audit

We are required to inform the Fund of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. The material misstatement discovered during the course of our audit and which has been adjusted for is summarised in the table below.

### Adjusted misstatements

Details of the item corrected following discussions with management is as below.

No	Detail	Fund Account		Net Asset Statement	
		Dr £m	(Cr) £m	Dr £m	(Cr) £m
1.	Being adjustment to investment management expenses following receipt of updated information provided by the fund managers.  DR Management Expenses  CR Return on investments	6.5	(6.5)		
Net impact on net assets					-

### Unadjusted misstatements

We identified no unadjusted misstatements during our audit.

## Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the Fund.

Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	<p>Note 11a (Reconciliation of movements in investments and derivatives)</p> <p>Under the Purchases (at cost) and derivative payments heading, Pooled Property investments has been increased by £9.386million.</p> <p>Under the Sales proceeds and derivative receipts has been decreased by £9.386million.</p>
2.	<p>Note 11a (Reconciliation of movements in investments and derivatives)</p> <p>The narrative at the foot of the note was updated to reflect the adjustment in investment management expenses.</p>

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.

## Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

### Action plan grading structure

To assist the Fund in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated as follows:

Rating	Assessment rationale
High	An issue that results in a severe impact to the achievement of objectives in the area audited.
Medium	An issue that results in a moderate impact to the achievement of objectives in the area audited.
Low	An issue that results in a small impact to the achievement of objectives in the area audited.

<b>Working papers in preparation of the annual accounts</b>		<b>Medium</b>
<b>Observation</b>	<p>Management, in the preparation of the financial statements place reliance on reports and information from its Custodian, Northern Trust. During the course of the audit we requested further information from management, who in turn requested this from Northern Trust, to support the disclosures in the notes to the accounts (in particular note 11 (Reconciliation of movements in investments and derivatives). This led to a change in the disclosures within this note.</p>	
<b>Implication</b>	<p>There is a risk that management does not obtain / challenge all information provided by Northern Trust and that this could lead to a misstatement in the financial statements.</p>	
<b>Recommendation</b>	<p>We would encourage management to request and challenge all information provided by Northern Trust which is required in the preparation of the annual report and accounts.</p>	
<b>Management response</b>	<p>Northern Trust is relied on to produce reports and information due to the nature of the accounting for Pension Funds, the complexities, the timing of accounts and the structure of the team. A number of checks and reconciliations are carried out to ensure the information received agrees with the ledger and is as anticipated. Over the last few years, further dialogue and discussion has taken place with Northern Trust to increase fund officers understanding and ability to challenge information provided, particularly around the classification of assets.</p> <p>Procedures will be enhanced to include an increased level of challenge into the year-end consolidation process.</p> <p><b>Responsible officer:</b> Finance Operations Manager</p> <p><b>Implementation date:</b> 30 June 2024</p>	

<b>Assurance Reports on Controls at a Service Organisation</b>		<b>Medium</b>
<b>Observation</b>	<p>Fife Pension Fund utilise the Altair pension administration software platform as provided by Heywood Pension Technologies. We noted during our audit that the Pension Fund does not seek assurance that the relevant internal controls are in place at this organisation; through for example the organisation’s internal control report and associated audit report.</p>	
<b>Implication</b>	<p>There is a risk that should appropriate controls be absent at this organisation that this could lead to a misstatement in the Pension Fund’s financial statements.</p>	
<b>Recommendation</b>	<p>We would encourage management to obtain and review the internal control report and associated audit report as it relates to Heywood Pension Technologies and the provision of the Altair pension administration software platform.</p>	
<b>Management response</b>	<p>Various reports and assurances are sought from Heywood Pension Technologies in respect of Cyber certificates and compliance with various standards. Our requests will be extended to include internal control reports and associated audit reports and these will be reviewed upon receipt.</p> <p><b>Responsible officer:</b> Pensions Team Leader</p> <p><b>Implementation date:</b> 31 March 2024</p>	

## Appendix 4: Follow up of prior year recommendations

We have followed up on the progress the Fund has made in implementing the recommendations raised by the previous auditor last year.

1. Member benefit statements notifications	
<b>Recommendation</b>	Consider the need to notify the availability of member benefit statements by letter where email addresses are not held.
<b>Implementation date</b>	<b>31 August 2023</b>
<b>Complete</b>	Members not using MSS have been written to advising to register and access statement.

2. Lump Sum accruals	
<b>Recommendation</b>	Ensure that appropriate accruals for lump sums are made.
<b>Implementation date</b>	<b>31 March 2023</b>
<b>Complete</b>	Year end procedures were updated

3. Reconciliations	
<b>Recommendation</b>	Ensure that all key reconciliations are undertaken and reviewed on a timely basis.
<b>Implementation date</b>	<b>31 March 2023</b>
<b>Complete</b>	All reconciliations up to date



<b>4. Administration costs</b>	
<b>Recommendation</b>	Consider the inclusion of unit costs for administration in budget monitoring and administration reports.
<b>Implementation date</b>	<b>31 March 2023</b>
<b>Ongoing</b>	Not yet actioned – consider in review of KPIs which has just concluded phase 1  <b>Revised implementation date: 31 March 2024</b>

<b>5. Service organisation control reports and complementary user entity controls</b>	
<b>Recommendation</b>	Include the review of service organisation control reports and complementary user entity controls specified by the custodian as part of the governance assurance framework.
<b>Implementation date</b>	<b>30 June 2023</b>
<b>Ongoing</b>	A review of service organisation control reports has been included in the 2022/23 annual report and accounts.  Audit observation: we did however note that LPFI do not currently commission and publish a service internal control report as prepared by an independent reporting accountant. In 2022/23, the Fund received a controls letter in the absence of such a report. We would encourage the Fund to request from LPFI an internal control report as provided by all other fund managers.  <b>Implementation date: 31 March 2024</b>

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# Fife Pension Fund Annual Report & Accounts 2022-23



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

<b>Contents</b>	<b>Page</b>
Management Commentary	2
Fife Pension Fund Annual Governance Statement	15
Governance Compliance Statement	24
Actuarial Statement	28
The Pension Fund Accounts	
- Remuneration Report	30
- Statement of Responsibilities	30
- Fund Account	32
- Net Assets Statement	33
- Notes to the Accounts	34
Membership of the Fund	58
Appendix 1 – Statement of Investment Principles	59
Appendix 2 – Communications Policy Statement	73
Appendix 3 – Investment Commentary	77
Independent Auditors Report	80

## **MANAGEMENT COMMENTARY**

### **Introduction**

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

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

### **Strategy and Business Model**

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

### **Principal Risks and Uncertainty**

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

### **Overview of Fund Business**

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

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

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

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

## Review of the Year

### Key Facts and Figures

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

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

**Table 2 Investment Highlights**

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

The fund has experienced a change in value of £111.189m represented by a loss in capital value of investments of £157.042m (2021-22 gain £194.926m) coupled with income from dividends and interest of £45.286m (2021-22 £28.662m). The fund experienced a net surplus of £18.610m (2021-22 £21.243m) from dealings with members.

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

The Transaction costs for 2022-23 are reported as £2.094m (2021-22 £4.341m), these reflect the cost to the fund of dealing in the underlying investments in order to achieve its objectives.

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

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

## Investment Management Arrangements

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

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

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

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

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

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

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

**Table 3 Investment Strategy**

Policy Group	Interim Strategy (June 2021) %	Final Strategy (Sept 2022) %	Permitted Range
Equities	55	50	40%-60%
Real Assets	15	20	10%-30%
Non-Gilt Debt	15	15	5%-25%
LDI (formerly Gilts)	15	15	5%-25%
Cash	0	0	0%-15%
<b>Total</b>	<b>100</b>	<b>100</b>	

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

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

## Responsible Investment Activities

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



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

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

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

### Climate Change – Monitoring and Metrics

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

**Table 4 – Measure of Carbon Efficiency**

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

Source: MSCI

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

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

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

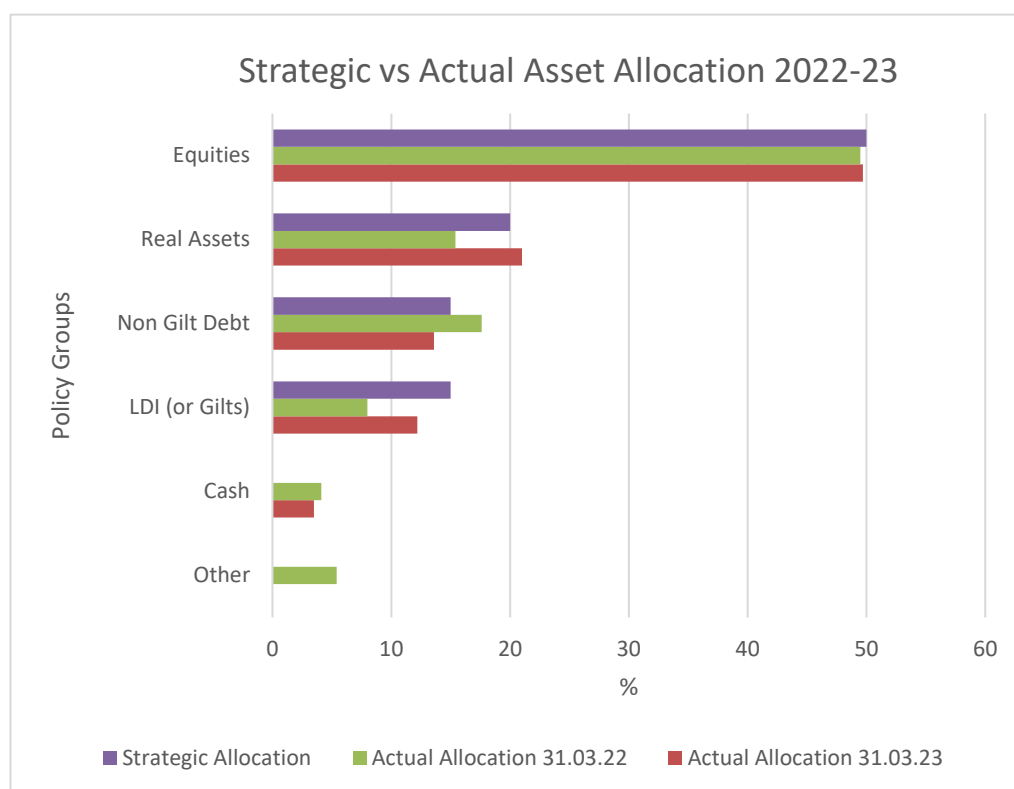
### Implementation of Investment Strategy and Investment Performance

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

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



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



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

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

The cash balance at 31 March 2023 was £123m (3.5% of Fund Assets).

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

**Table 5 Asset Allocation per Policy Group**

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

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

Source: Northern Trust

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

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

**Table 6 Fund Performance**

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

Source: Northern Trust

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

## Investment Trends and Influences

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

## Structure of Administration

### The Pensions Administration Team

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

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

The administration function covers a range of activities including: -

- processing and payment of member benefits

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

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

## **Service Delivery Developments**

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

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

## **Training and Development**

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

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

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

External training sessions attended by team members included: -

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

## **Statutory Framework of the LGPS**

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

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

## **Administration Performance**

### **Processes and Procedures**

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

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

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

## Fund Policies

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

The revised statement provides greater clarity on the roles and responsibilities of both Fife Council as the Administering Authority and scheme employers. The strategy also sets out performance monitoring arrangements and targets for all parties as well as the potential consequences of poor performance.

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

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

## Performance Standards

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

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

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

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

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

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

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

## Administration Review

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

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

### **Statutory Annual Benefit Statements**

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

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

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

### **Use of Information Technology**

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

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

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

### **Communications**

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

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

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

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

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

### **Working with Scheme Employers**

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

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

## **Collaborative Working**

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

## **Key Legislative Changes**

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

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

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

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

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

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

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

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

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

### **Pension Scams**

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

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

## **Spring 2023 Budget**

The Chancellor announced changes to pensions tax allowances including

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

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

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

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

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

### **Pension Dashboards**

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

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

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

### **Public Service Pensions Indexation**

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

### **CARE Scheme Revaluation**

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

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

### **National Fraud Initiative**

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

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

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



## Internal Dispute Resolution Cases

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

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

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

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

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

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

## Fund Update

Membership details are shown below:-

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

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

## Future Years

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

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

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

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



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

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

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

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

## **Acknowledgements**

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

Ken Gourlay  
Chief Executive

Eileen Rowand MBA CPFA  
Executive Director Finance and Corporate Services

Councillor Dave Dempsey  
Convener of Pensions Committee

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

### **Roles and Responsibilities**

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

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

Fife Council carries out its role as Administering Authority via

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

### **Scope of Responsibility**

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

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

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

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

### **Governance Framework**

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

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

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

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

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

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

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

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

## **Pensions Committee**

### **Delegation**

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

### **Terms of Reference**

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

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

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

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

### **Frequency of Committee Meetings**

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

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

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

## The Fife Pension Board

The Pension Board has been established to assist Fife Council:

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

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

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

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

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

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

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

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

In addition, the responsibilities also include the following: -

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

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

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

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

## **External Advisers**

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

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

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

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

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

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

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

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

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

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

## Review of effectiveness

### Internal Control

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

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

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

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

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

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

### External Control

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

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

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

Key:

Report Title	Definition
SSA E18	Statement on Standards Attestation Engagements no. 18
ISAE 3402	International Standard on Assurance Engagements 3402, Assurance Reports on Controls at a Service Organisation
AAF01/20	ICAEW Assurance on internal controls of service organisations guidance
SOC1	Systems and Organisation controls
Controls Letter	LPFI provided a letter confirming controls in place and the findings of External Audit

### Update on Significant Governance issues Previously Reported

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

### Internal Audit Opinion

During 2022-23 the following assurance reviews were undertaken

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

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

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

## Significant Governance Issues

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

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

## Governance Compliance

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

## Access to Information

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

## Governance Arrangements – Areas of Improvement and Development

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

### Completed Improvements

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



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

### Future Developments and Improvements

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

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

## **Certification**

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

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

Ken Gourlay  
Chief Executive

Councillor Dave Dempsey  
Convenor of the Pensions Committee

## Governance Compliance Statement

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

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

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

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

Ken Gourlay  
Chief Executive  
28 September 2023

Councillor Dave Dempsey  
Convener of Pensions Committee  
28 September 2023

## ACTUARIAL STATEMENT

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

### Description of Funding Policy

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

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

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

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

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

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

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

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

#### Method

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

## Assumptions

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

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

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

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

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

\* Currently aged 45.

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

## Experience over the period since 31 March 2022

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

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

Robert Bilton FFA

For and on behalf of Hymans Robertson LLP  
30 May 2023

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB



## REMUNERATION REPORT

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

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

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

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

## STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

### The Administering Authority's Responsibilities

The Authority is required: -

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

Signed on behalf of Fife Council

Councillor Dave Dempsey  
Convener of Pensions Committee  
28 September 2023

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

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

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

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

The Executive Director Finance and Corporate Services has also: -

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

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

Eileen Rowand  
Executive Director Finance and Corporate Services  
28 September 2023

## Fife Pension Fund Accounts

### Fund Account

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

2021-22			2022-23
£m		Notes	£m
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(116.874)	Contributions Receivable	6	(118.346)
(1.965)	Transfers in from other pension funds		(1.867)
(118.839)			(120.213)
93.741	Benefits Payable	7	98.974
3.855	Payments to and on Account of Leavers	8	2.629
97.596			101.603
<b>(21.243)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>(18.610)</b>
16.327	Management Expenses	9	17.614
<b>(4.916)</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>(0.996)</b>
	<b>Returns on investments</b>		
(28.662)	Investment Income	10	(45.286)
0.345	Taxes on income		0.429
(194.926)	(Profit) and losses on disposal of investments and changes in the market value of investments	11a	157.042
<b>(223.243)</b>	<b>Net return on investments</b>		<b>112.185</b>
<b>(228.159)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>111.189</b>
3,303.159	Opening net assets of the scheme at 1 April		3,531.319
228.159			(111.189)
<b>3,531.319</b>	<b>Closing net assets of the scheme at 31 March</b>		<b>3,420.129</b>

## Fife Pension Fund Accounts

### Net Asset Statement

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

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

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

The unaudited financial statements were issued on 30 June 2023 and the audited accounts were authorised for issue on the 28 September 2023.

Eileen Rowand  
Executive Director Finance and Corporate Services  
28 September 2023

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

### 1 Description of Fund

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

#### General

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

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

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

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

#### Membership

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

Organisations participating in the fund include the following:

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

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

## 1 Description of Fund ( continued )

### Changes in Membership

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

### Funding

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

### Scheme Benefits

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

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

The following table gives a summary of scheme benefits

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

## 2 Basis of Preparation

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

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

### 3 Statement of Accounting Policies

#### a) General

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

#### b) Accruals

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

#### c) Valuation of Investments

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

#### d) Foreign Currency Transactions

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

#### e) Contributions and Benefits

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

#### f) Transfer Values

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

#### g) Investment Income

Dividends and interest are accounted for when the securities are quoted ex-dividend. Interest on bank deposits is accounted for as it accrues. Distributions from pooled funds are recognised at the date of issue.

#### h) Administrative and Investment Management Expenses

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

#### i) Cash and Cash Equivalents

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

#### j) VAT

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

#### k) Taxation

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

#### l) Financial Assets

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

### 3 Statement of Accounting Policies ( continued )

#### m) Financial Liabilities

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

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

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

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

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

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

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

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

#### p) Derivatives

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

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

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

#### q) Fair value measurement

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

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

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

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

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

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

#### r) Prior Year Adjustments

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

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



#### 4 Critical Judgements in Applying Accounting Policies

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

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

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

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

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

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

## 6 Contributions Receivable

### By Category

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

### By authority

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

## 7 Benefits Payable

### By Category

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

### By authority

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

## 8 Payments to and on Account of Leavers

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

## 9 Management Expenses

2021-22		2022-23
£m		£m
1.736	Administrative costs	1.917
13.991	Investment management expenses	15.207
0.600	Oversight and governance costs	0.490
<b>16.327</b>		<b>17.614</b>

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

### 9a Investment Management Expenses

2022-23	Management Fees £m	Performance Related Fees £m	Transaction Costs £m	Total £m
Pooled Investments	0.793	0.000	0.333	1.126
Equities	1.106	0.000	(0.216)	0.891
Bonds	0.386	0.000	0.035	0.421
Pooled Property Investments	5.792	0.171	0.724	6.687
Private Equity/Infrastructure	3.946	0.744	1.100	5.791
Cash	0.000	0.000	0.118	0.118
	<b>12.024</b>	<b>0.915</b>	<b>2.094</b>	<b>15.033</b>
Custody Fees				0.175
				<b>15.207</b>

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

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

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

## 10 Investment Income

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

## 11a Reconciliation of Movements in Investments and Derivatives

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

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

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

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

2022-23	Value at 31 March 2022	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2023
	£m	£m	£m	£m	£m
Fixed interest securities	369.831	335.588	(116.326)	(96.730)	492.364
Equities	578.569	177.351	(104.053)	(43.557)	608.309
Pooled Investments	1,861.442	1.685	(418.622)	(10.983)	1,433.521
Pooled Property Investments	242.641	7.350	(5.940)	(44.387)	199.664
Private Equity/Infrastructure	299.640	205.030	(38.162)	28.049	494.556
	<b>3,352.123</b>	<b>727.004</b>	<b>(683.104)</b>	<b>(167.609)</b>	<b>3,228.414</b>
Derivative contracts:					
Futures	0.058	6.932	(6.640)	(0.397)	(0.048)
Forward currency contracts	(0.136)	0.986	(0.476)	(0.241)	0.133
	<b>3,352.045</b>	<b>734.921</b>	<b>(690.220)</b>	<b>(168.247)</b>	<b>3,228.500</b>
Other investment balances	(0.058)			0.200	0.048
Cash deposits	180.992			0.993	197.784
Amount receivable for sales of investments	0.394			(0.000)	0.000
Investment income due	3.819			0.000	5.241
Amount receivable for pending spot FX	0.000			(0.817)	0.000
Amount payable for purchases of investments	(3.364)			(0.002)	(6.054)
<b>Total Investment Assets</b>	<b>3,533.827</b>			<b>(167.873)</b>	<b>3,425.519</b>

Trading gains and market value movements accounted for £157.042m per the Fund Account. This is different to the £167.873m reported above. The reason for this difference is £10.831m of indirect management expenses which have been included within note 9 to the accounts

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

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

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

## 11b Analysis of Investments

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

## 11c Investments Analysed by Fund Manager

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

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

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

## 11d Stock Lending

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

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



## 12 Analysis of Derivatives

### Objectives and policies for holding derivatives

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

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

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

### Futures

Outstanding exchange traded futures contracts are as follows:

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

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

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

### Open forward currency contracts

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

### 13 Fair Value - Basis of Valuation

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

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

## 13a Fair Value Hierarchy

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

### Level 1

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

### Level 2

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

### Level 3

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

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

### 13a Fair Value Hierarchy ( continued )

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

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

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

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

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

## 14 Classification of Financial Instruments

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

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

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

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

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

Liquidity risk

Credit risk

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

### Liquidity Risk

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

All financial Liabilities are due within one year.

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

### Credit Risk

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

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

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

### Market Risk

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

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

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

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

### Currency Risk

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

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

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

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

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

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

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

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

### Interest Rate Risk

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

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

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

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

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

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

### Other Price Risk

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

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

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



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

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

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

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

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

## 16 Actuarial Valuation

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

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

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

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

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

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

### IAS 19 Assumptions used

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

### Demographic assumptions

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

### Sensitivity Analysis

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

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

## 17 Analysis of Debtors

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

## 18 Additional Voluntary Contributions (AVC)

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

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

## 19 Related Party Transactions

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

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

### Governance

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

## 19a Key Management Personnel

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

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

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

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

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

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

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

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

## **21 Contingent Assets and Liabilities**

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

## **22 Impairment Losses**

No investment assets were subject to impairment during the year.

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

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

Accounting Standards not yet adopted are:-

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

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

## **MEMBERSHIP OF THE FUND**

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

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

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

### **Scheduled Bodies**

Fife Council

Fife College

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

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

### **Admitted Bodies**

St Andrews Links Trust

Fife Housing Group

Citizens Advice & Rights Fife

Home-Start Levenmouth

Business Gateway Fife

Drug & Alcohol Project

Fife Intensive Rehabilitation & Substance Misuse Team (FIRST)

The Clued-Up Project

Forth & Oban

Fife Sport & Leisure Trust

Fife Coast & Countryside Trust

Fife Golf Trust

Fife Cultural Trust

Scotland's Rural College (SRUC)

Fife Resource Solutions

Sodexo

## FIFE PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

#### 1. Introduction

- 1.1 This Statement of Investment Principles (**SIP**) was agreed by the Pensions Committee (**Committee**) of Fife Council (**FC**) on 26 September 2022. FC is the administering authority for the Fife Pension Fund (**the Fund**).
- 1.2 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a SIP. The SIP must be reviewed from time to time and revised within six months of any material changes in the Policy.
- 1.3 In preparing this statement, the Committee has taken professional advice from the Joint Investment Strategy Panel (**JISP**), which includes external advisers and members of the Lothian Pension Fund internal investment team who are FCA authorised individuals.
- 1.4 The SIP describes the objectives, policies and principles adopted by the Committee of FC in undertaking the investment of fund monies. The SIP also discloses the extent to which the Fund comply with the six “Myners Principles” of investment practice.
- 1.5 The SIP as been devised in conjunction with the Lothian and Falkirk Pension Funds as part of the three Funds’ commitment to work collaboratively in order to achieve the efficiencies that come from scale investing.

#### 2. Governance

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

#### 3. High Level Investment Principles

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

## Governance

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

## Funding

- 3.6 **Principle 6: Given future uncertainties, the funding strategy should be prudent and should reduce risk to employers of another employer defaulting on its pension obligations.** The Funding Strategy Statement expresses the funding objective, which informs the invested strategy options. The ultimate objective is to ensure long-term solvency so that retirement benefits employers promise to members under scheme rules can be paid when they fall due, so full funding should be achieved in a prudent manner to ensure that liquid assets are available at the required time. This is important for members, employers and taxpayers as the scheme is ultimately state backed.
- 3.7 **Principle 7: Committee believes that the Fund should consider requests for different investment strategies from employers with different objectives.** Employers have conflicting desires: on the one hand, they would like to minimise the fluctuations in contributions and on the other hand, they would like to minimise the overall amount of contributions. Employers may have different objectives, so they should be given the opportunity to request a bespoke investment strategy. The Fund should consider such requests, taking account of issues such as employer covenant and implementation costs.

## Investments

- 3.8 **Principle 8: Committee believes that the ability of the Fund to pay pension benefits when they fall due is more important than mark-to-market funding levels.** Committee recognises that there are various ways to measure the value of promised benefits in a defined benefit scheme. Committee believes that where employer circumstances allow, investment strategy should focus on delivering strong (real) returns that grow to cover cashflows over the longer term rather than focusing on protecting the funding level in the short term.
- 3.9 **Principle 9: Committee believes ‘return-seeking’ assets are likely to outperform ‘risk-free’ assets as the investment horizon lengthens, but this is not guaranteed.** Time horizons matter a great deal. The appropriate horizon for investment risk-taking depends on the duration of the liabilities, the profile of projected cash flows and the deficit recovery and contingency plans for the scheme (the sponsor covenant).
- 3.10 **Principle 10: Committee believes in owning a diversified portfolio of assets so that it is not overly exposed to any particular contingency.** Asset diversification can reduce risk where assets are not perfectly correlated. Committee recognises that the future is unpredictable and that real returns from investments are uncertain. Fund returns will be determined primarily by the high-level investment strategy allocation to different policy groups and the timing of material changes. Asset allocation balances diversified risks with the expected additional returns for these risks.
- 3.11 **Principle 11: Committee believes that responsible investment should reduce risk and may improve returns, but that mechanistic divestment is inconsistent with the Fund’s fiduciary duty to members and employers.** The Local Government Pension Scheme (LGPS) was designed with an important social purpose in mind – the provision of retirement income for individuals. The Fund’s fiduciary duty means that the pursuit of financial return is its paramount concern, although it may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment. Committee believes that the decisions to invest in, or divest from, a particular company should be made by an investment manager based on a holistic analysis of financially material issues, including environmental, climate change, social and governance issues. Committee agreed to a Statement of Responsible Investment Principles (SRIP) in June 2021.
- 3.12 **Principle 12: Committee believes it should exercise its ownership rights in a responsible way, constructively engaging with companies to reduce risk.** The Fund’s interests are better protected from adverse impacts by collaborating with like-minded investors to have greater influence in engaging with companies, government and regulators. Engagement aims to encourage responsible behaviour by companies in relation to environmental, climate change, social and governance issues.
- 3.13 **Principle 13: Committee believes that monitoring and assessment of investment success should be viewed on a long-term basis.** No asset mix provides a stream of cash flows that perfectly matches the liability payments of the Fund as they fall due, so monitoring activity is complex. The Fund is long term in nature and the success of a given investment strategy is likely to ebb and flow with changing investment environments in an unpredictable way. Investment monitoring is challenging and should be viewed through a long-term lens.
- 3.14 **Principle 14: Committee believes that peer group comparative analysis needs to be treated with care.** No two pension funds are identical, so peer group analysis should be undertaken with care as different funds can hold different investment beliefs, objectives and return and risk appetites.

## 4. Responsible Investment

- 4.1 With liabilities extending decades into the future, it is in the Fund’s interest to take its responsibilities as institutional asset owners seriously. To this end, the Fund’s approach to responsible investment centres on effective stewardship of all assets, with a particular focus on good corporate governance to deliver sustainable investor value.
- 4.2 The Fund considers a wide range of issues and what financial impact it could have on the assets that it owns. The Fund’s investment managers are charged with integrating ESG analysis into their decision-making. Investment managers are selected and appointed after due consideration of their approach to integrating ESG considerations into their investment process.



- 4.3 The Fund demonstrate their open and transparent approach to Responsible Investing by publishing a Statement of Responsible Investment Principles (SRIP). This document explains how the Fund practise responsible investment policy group by policy group, and how it is committed to limiting the impact of climate change. The SRIP is published as a standalone document. It represents the Fund's position on Responsible Investment, and it forms part of the Pensions Committee's regular review of Stewardship and Engagement activities.
- 4.4 Another key strand of the Fund's approach to responsible investment is voting and engagement. For listed equities, the Fund is committed to exercising the right to vote the shares that it owns. It is also committed to engaging with and influencing companies, governments and regulators where appropriate. The Fund does not follow a policy of exclusion or automatic divestment, as such a policy has the potential to transfer ownership rights to investors without responsible investment policies.
- 4.5 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. As long-term investors, the Fund recognises the importance of promoting responsible stewardship and long-term decision making. The Fund seeks to adhere to the principles of the FRC'S UK Stewardship Code and encourages its appointed asset managers to do so.

## 5. Funds' Objectives

- 5.1 The **primary objective** of the Fund is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment.
- 5.2 The **funding objectives** for the Fund are documented in the Committee's Funding Strategy Statement, which is reviewed at least triennially. The funding objectives, together with the rates of return being targeted and levels of risk to be tolerated, are central to the Fund's investment strategy and governs the allocation across various policy groups.
- 5.3 The **investment objectives** of the Fund are to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives as outlined in the Funding Strategy Statement. Investment returns are generated by a combination of income (from dividends, interest and rents) and gains or losses on capital.
- 5.4 In effect, the Fund's objectives are to generate sufficient long term returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.
- 5.5 Committee has set investment strategy with reference to the following **policy groups**, which are regarded as the key determinants of risk and return. The policy groups condense the vast array of investment choices into a manageable number of investment groups with broadly similar characteristics:
- **Equities** provide an equitable share in the assets and profits of companies. Income is provided through discretionary share dividends. Equities are listed in the UK or overseas, or are unlisted (private equity). Equities have historically produced returns above inflation.
  - **Liability Driven Investment (LDI)** are gilts, which are debt instruments issued by the UK Government. Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some gilts provide interest payments and capital repayment value that is directly linked to price inflation (the Retail Price Index (RPI)). These are known as Index Linked Gilts and they provide the closest match to the Funds' liabilities, most of which are inflation-linked, albeit to a different measure of price inflation (the Consumer Price Index (CPI)). However, when gilts are expensive, they can guarantee a negative real return if held to maturity. Some other governments also issue this type of debt, but in different currencies tied to price inflation in their own countries.
  - **Non-Gilt Debt** instruments are issued by a range of borrowers to finance their activities in various sectors of the economy, which means that they carry varying degrees of credit risk. Income is provided through interest, which is typically paid to the lender on a regular basis until the loan capital is repaid, generally at par by the issuer at a pre-determined date. Bonds can pay a fixed, variable or inflation-linked rate of interest. Bonds are listed in the UK or overseas or are unlisted (private debt).
  - **Other Real Assets** are typically investments in a share of income and capital appreciation of tangible assets, including **property** (land and/or buildings for commercial or residential use), **infrastructure**

(assets deemed essential to the orderly functioning of daily life, such as renewable energy generation and transmission assets, water utilities, airports and toll roads) and **timberlands**. Income comes from dividends and rents.

- **Cash** is also a form of investment used to provide instant or short-term liquidity and can be held in both sterling and foreign currencies (including Treasury Bills, Money Market Funds and Secured Investments). Cash generates interest income, but typically a lower rate than bonds and other debt.

5.6 As the returns of the above investments are not completely correlated, the Fund expects to achieve diversification and better risk-adjusted returns by investing in assets from each policy group.

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

## 6. Fund Strategy

6.1 The Committee's agreed investment strategy (presented in Appendix A) is expressed in terms of allocations to various policy groups. These reference portfolios are expected to generate the required return with a reasonable probability of success. The rate of return being targeted and the level of risk to be tolerated are central to the determination of the investment strategy (or asset mix) for the Fund.

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

6.3 There may also be demand from individual employers for other investment strategies for their section of the Fund. The Fund will consider such requests, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.

6.4 The Fund's investment strategy is measured against strategy-specific benchmarks by an independent performance measurement specialist, and these are reported to Committee at least annually with reference to asset market returns as well as liability valuations. The Executive Director of Finance and Corporate Services is responsible for monitoring investments and investment activity, and she delegates this function to the Head of Finance taking advice from the JISP, which meets at least quarterly.

## 7. Strategy Implementation

7.1 The Committee delegates implementation of strategy to the Executive Director of Finance and Corporate Services, who delegates the role to the Head of Finance, taking advice from the Joint Investment Strategy Panel (JISP). The Head of Finance operates within the parameters agreed by the Committee, investing the Funds' assets in the policy groups within the permitted ranges.

7.2 The Head of Finance, advised by the JISP, identifies the combination of investment managers and mandates within the policy groups to deliver the objectives of the Fund. The investment managers and mandates are listed in Appendix B. The Fund employs external managers, but also works collaboratively with the Lothian Fund in house investment team, which manages some assets through its FCA authorised vehicle, LPFI, in recognition of the cost and alignment advantages of doing so.

7.3 To reduce the risk that the Fund does not deliver its objective, controls are set for each manager. These are detailed in formal Investment Management Agreements; and similarly, formal investment objectives and constraints are set for internal mandates where appropriate. The investment managers are responsible for the selection of individual holdings.

7.4 The Funds' investment managers and mandates are measured against mandate-specific benchmarks of risk and return by an independent performance measurement specialist. Performance and mandate implementation is monitored by the JISP on a quarterly basis.

- 7.5 The Fund will look to collaborate with other investors to benefit from increased scale and cost sharing arrangements.

## **8. Other Investment Considerations**

### **Realisation of investments**

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

### **Stock Lending**

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

### **Underwriting**

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

### **Derivatives**

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

### **Safekeeping of Assets**

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

## **9. Compliance**

### **Regulations and Investment Limits**

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

### **CIPFA Principles for Investment Decision Making**

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

### **Review of SIP**

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

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

### FIFE PENSION FUND: INVESTMENT STRATEGY

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

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

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

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

Policy Group	Mandate	Manager	Actual Allocation 30/06/22
<b>Equities</b>			52.6%
	UK Passive	Blackrock	15.5%
	Global Growth	Baillie Gifford	7.9%
	Global High Dividend	LPFI	4.3%
	Global Low Volatility	LPFI	7.1%
	Global Fundamental Indexation	State Street	17.8%
<b>Real Assets</b>			18.0%
	Property	CBRE	8.3%
	Global Infrastructure	Partners Group/Various	9.6%
<b>Non Gilt Debt</b>			15.9%
	Corporate Bonds	Janus Henderson	2.6%
	Corporate Bonds	Western	2.5%
	Corporate Bonds	Legal and General Investment Management	2.7%
	Sovereign Bonds	Legal and General Investment Management	6.9%
	Private Debt	Various	1.1%
<b>LDI</b>			8.0%
	Government Bonds	Janus Henderson	4.9%
	Government Bonds	LPFI	3.2%
<b>Cash</b>			5.5%
	Cash	Various	5.5%

## Appendix C – Stewardship Statement

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

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

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

In practice, our policy is to apply the Code through the

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

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

EOS has the expertise to undertake corporate engagement on an international basis, and they do this for us. Their aim is to bring about positive long-term change at companies through a focused and value-oriented approach. Engagements undertaken by EOS on our behalf are guided by the EOS [Engagement Policy](#)

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

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

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

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

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

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

### ***Principle 3: Institutional investors should monitor their investee companies.***

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

- We expect them to monitor companies, intervene where necessary, and report back regularly on activity.

- Activity will be reported on the Funds' website, including the number of company meetings at which the Fund has voted and how the Fund has voted.

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

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

As highlighted above, responsibility for interaction with companies is shared with the bulk of interventions being undertaken by EOS and external managers. In general,

- We expect the approach to engagement on our behalf to be value-orientated and focused on long term sustainable profitability.
- EOS monitors the activity of many of our investee companies and escalate engagement activity directly with them as required.
- Consistent with our fiduciary duty to beneficiaries and to encourage improved conduct in future, we consider participating in shareholder litigation where it appears likely that the Fund will recover losses (net of costs) sustained because of inappropriate actions by company directors.

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

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

- the appointment of EOS, whose engagement service pools asset ownership with the aim of protecting and enhancing shareholder value. EOS represents us and other like-minded asset owners globally using its expertise to enhance our effectiveness in communicating with companies, industry bodies, regulators and legislators.
- Our preference is for managers to vote on the Funds' behalf and for responsible stewardship to be integral to the investment decision-making process. We are comfortable with delegation of voting to External Fund Managers for the funds they manage.
- For all other mandates, EOS votes consistently across the portfolios it covers, and makes voting decisions based on a thorough analysis of publicly available information and always taking account of a company's individual circumstances. EOS informs companies where it has concerns and seeks a resolution prior to taking the decision to vote against management. In this way, it uses our votes as a lever for positive change at companies. Underpinning voting decisions are EOS Corporate Governance policies, which can be found in the following link:  
<https://www.hermes-investment.com/uki/about-us/policies-and-disclosures/>
- We are committed to disclosing our historic voting information on our website. This includes the total number of votes cast at which company meetings and whether the votes were cast for or against company management. We will disclose in arrears so that we are transparent and accountable but dialogue with companies in our portfolios is not compromised.

***Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity,***

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

***Principle 7: Institutional investors should report periodically on their stewardship and voting activities.***

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

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



## Appendix D – CIPFA Principles for investment decision making and disclosure

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

### Principle 1 – Effective decision making

*Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.*

- The Fund's Training Policy (Comprising a compulsory training seminar for all new trustees and a requirement to undertake no less than two days (14 hours) of training in each year for all Pensions Committee and Pension Board members) provides the knowledge to enable them to evaluate and challenge the advice they receive. Standards relating to the administration of the Committee's business are strictly up-held. [Training Policy | Fife Pension Fund](#)
- The Fund has appointed an Independent Professional Observer to strengthen governance. The role of the Observer is to provide the Committee and Pensions Board with an impartial, additional source of experience and technical knowledge.
- The Pensions Committee focuses on setting the strategy for the Fund and monitoring performance. The Pension Board also attends Committee meetings and is responsible for assisting the Committee in securing compliance with relevant regulations and other legislation.
- The Committee delegates the day-to-day running of the Fund to the Executive Director of Finance and Corporate Services, who in turn delegates to the Head of Finance and Funds' officers. The Executive Director of Finance and Corporate Services is responsible for the provision of training for Committee to help them to make effective decisions to ensure that they are fully aware of their statutory and fiduciary responsibilities, and to regularly remind them of their stewardship role.
- The Joint Investment Strategy Panel advises the Head of Finance on the implementation of the agreed strategies, reviewing structure, funding monitoring, performance and risk and asset allocation. The Joint Investment Strategy Panel meets at least quarterly and is made up of experienced investment professionals, including independent advisers.
- The in-house team undertakes day-to-day monitoring of the Fund. The team includes personnel with suitable professional qualifications and experience to provide the necessary skills, knowledge, advice and resources to support the Joint Investment Strategy Panel and the Pensions Committee.
- Conflicts of interest are managed actively. At each Committee meeting, elected members of the Pensions Committee and Pensions Board are asked to highlight conflicts of interest. A Code of Conduct applies to members of the Committee and the Pension Board. The Fund ensures conflicts of interest are highlighted and managed appropriately.
- Conflicts of interest are also managed in each JISP meeting and dealt with as a standing item at the beginning of each meeting.

### Principle 2 – Clear Objectives

*Overall investment objectives should be set out for the fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.*

- The Statement of Investment Principles and the Funding Strategy Statement define the Fund's primary funding objectives.
- Asset-liability modelling is undertaken with the help of external advisers to aid the understanding of risks and the setting of investment strategy.

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

### **Principle 3 – Risk and liabilities**

*In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for council tax payers; the strength of the covenant of participating authorities; the risk of their default, and longevity risk.*

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

### **Principle 4 – Performance assessment**

*Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.*

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

### **Principle 5 – Responsible ownership**

*Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.*

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

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

- The Fund's approach to responsible investment is described in the Statement of Investment Principles and the Statement of Responsible Investment, both of which can be found on the Fund's website.
- Details of the Fund's voting and engagements are available on the Fund's website. The Fund's annual report and accounts includes a summary of the Fund's approach to responsible investment. The full report is available on the website and is sent to members on request.

#### **Principle 6 – Transparency and reporting**

*Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and provide regular communication to members in the form they consider most appropriate.*

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

## FIFE PENSION FUND COMMUNICATION POLICY

(Dec 2022)

### Introduction

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

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

The communication policy statement must set out:

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

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

### Communications Objectives

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

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

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

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

### Who we communicate with

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

### How we will communicate

#### Fund Website

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

- Scheme policies

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

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

### **Fife Council Website**

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

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

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

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

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

### **General Communications**

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

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

Postal enquiries should be addressed to:

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

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

### **Employers' Meetings**

We provide training to scheme employers as and when required or on request from the scheme employer. All new employers in the Fund will also be provided with training. Employers will be expected to attend any such training, particularly where significant performance issues have been identified.

### **Member Presentations**

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

### **Visit to our Office**

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

## **Specific Communications**

### **Pensioners**

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

### **Active Members**

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

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

### **Deferred Members**

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

### **Prospective Members**

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

### **Scheme Employers**

The Fund communicates with scheme employers in the following ways:

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

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

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

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

### **Representatives of Members**

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

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

The Pension Team assists Trade Union representatives with member queries.

## Evaluation

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

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

## INVESTMENT COMMENTARY

**Provided by LPFI Ltd**

### **Investment Markets**

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

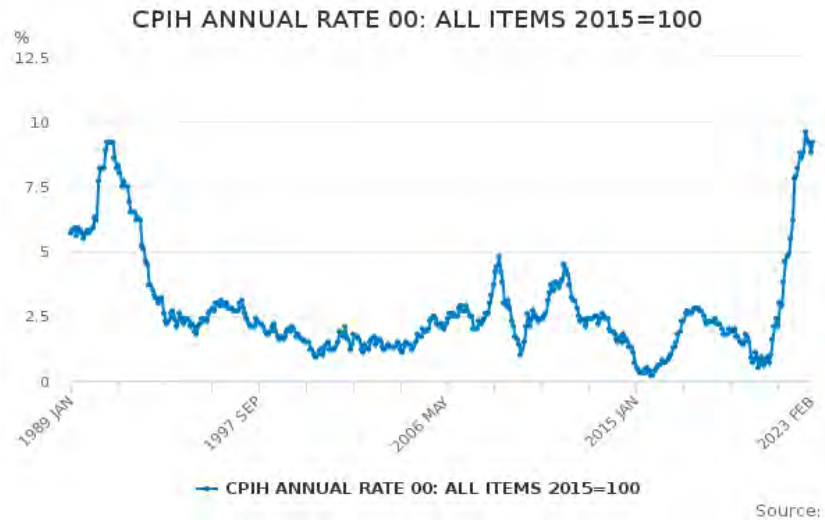
Soaring inflation and central banks' policy responses dominated the backdrop for financial markets. The mounting pace of inflation was worsened by the supply shock brought about by the war in Ukraine, with UK consumer price inflation reaching 40-year highs. The reaction from most major central banks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

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

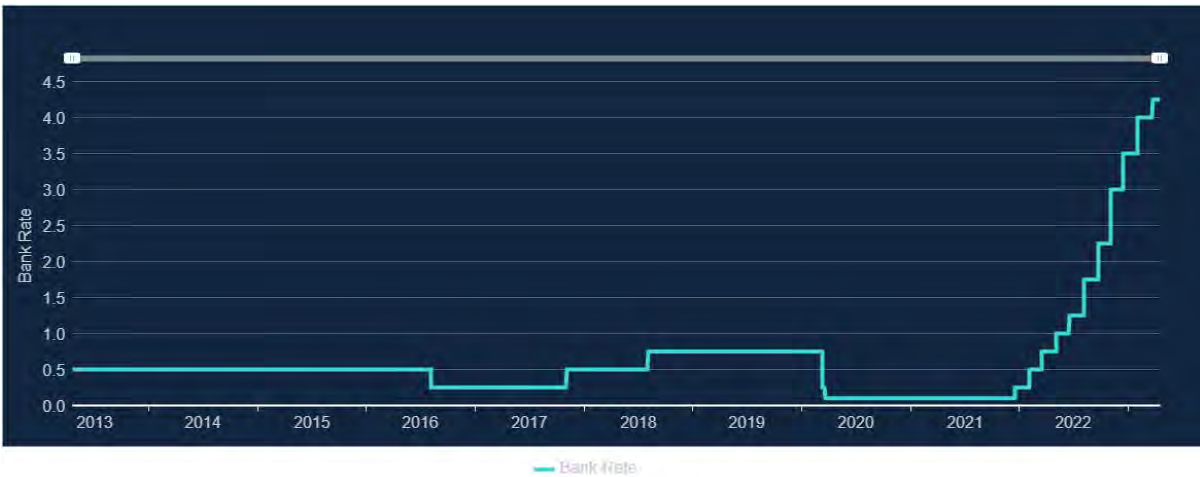
Inflation's influence over investment markets appears set to continue with disinflation to pre-pandemic levels likely to take some time. However, there is cause to believe that inflation has already peaked amid moderating commodity prices and the cooling effect of monetary policy. With that, central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



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

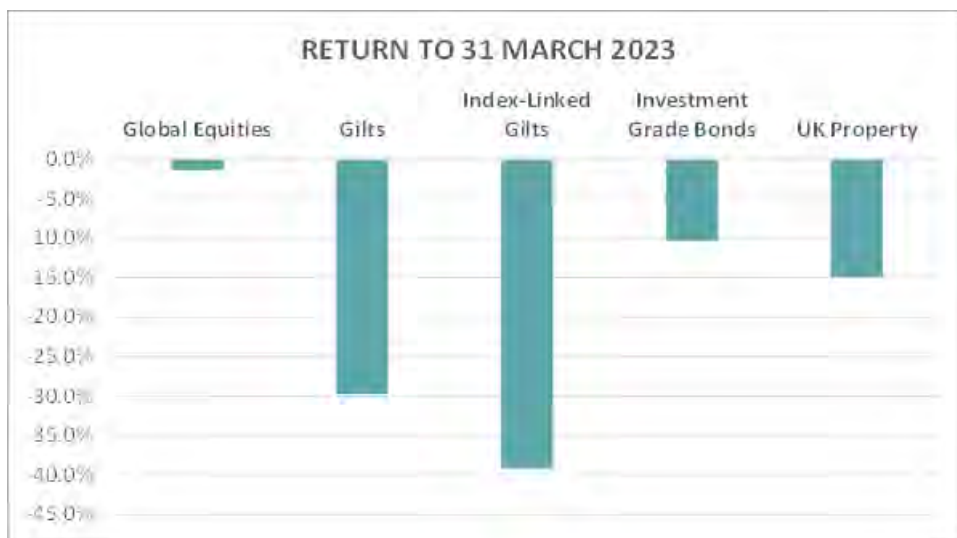


Source: <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/155o/mm23>



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

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



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

## **ADDITIONAL INFORMATION**

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

### **Comments and Suggestions**

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

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

### **Contact Details**

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

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

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

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

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

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

## Reporting on the audit of the financial statements

### Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Fife Pension Fund (the fund) for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In our opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2023 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern basis of accounting

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

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

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, we report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

### Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

## **Responsibilities of the Executive Director Finance and Corporate Services and Pensions Committee for the financial statements**

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

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

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;
- inquiring of the Executive Director Finance and Corporate Services as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;
- inquiring of the Executive Director Finance and Corporate Services concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

## Reporting on other requirements

### Other information

The Executive Director Finance and Corporate Services is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and our auditor's report thereon.

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

### Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

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

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

### Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

### Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

**Use of our report**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Nick Bennett, for and on behalf of Azets Audit Services  
Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

Date.....



28 September 2023

Agenda Item No. 7

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## **Fife Pension Fund – Business Plan update to 30<sup>th</sup> June 2023**

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

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**Wards Affected:** N/A

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### **Purpose**

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To provide the Committee with an update on the activities undertaken by the wider pension team for the first 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 on a routine basis. 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)**

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The Committee is asked to

- (1) Consider and comment on the progress made on the key development activities identified in the Business Plan 2023-24.
- (2) Note the range of activities carried out by the team over the last quarter.
- (3) Consider the level of quarterly performance relative to the target and to the same quarter of the previous year.

### **Resource Implications**

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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 developed which incorporate training and succession planning.

Performance is considered and monitored to ensure regulatory timescales and Key Performance Indicators (KPIs) are met.

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



## Legal & Risk Implications

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

## Impact Assessment

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Not relevant.

## Consultation

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

## 1.0 Background

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- 1.1 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) which support the pension administration function are collated within Altair, the pension administration software. KPIs are reported quarterly to the management team and to Committee.
- 1.3 The report is designed to provide formal reporting of administration performance to the management team and the Committee.

## 2.0 Business Plan Development Activity

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- 2.1 The purpose of this section of the report is to provide an update on the progress of the development activities identified in the business plan in the first quarter of the financial year. Progress has been positive with a number of areas being advanced.

### 2.2 **Development Activities:**

The areas of development identified were 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.

#### *Progress to date*

*This is intended to be managed as a joint procurement exercise with our partner funds, dialogue is ongoing on the likely timescales and will be reported back to Committee in due course. The timing will be dependant on the suitability for all partners.*

## **Actuarial Valuation**

2023 is the actuarial valuation year which involves working with the actuary to agree the employer's contribution rates and funding strategy statement. This involves providing data to the actuary and a series of validations and checks to ensure this is accurate.

### *Progress to date*

*Extensive work has been carried out by the Team running valuation reports, uploading member information to the actuary's portal, dealing with queries identified by the fund's actuary and liaising with our fund actuary to ensure that the information provided is of the required standard to allow the fund valuation process to progress.*

*The actuary has undertaken strategy modelling and the results have been discussed with officers and are being presented as a separate report on this agenda.*

## **McCloud Judgement**

Work will continue during 2023 on the McCloud judgement with a view to the system being updated in advance of the underpin remedy being finalised.

### *Progress to date*

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

*The remaining 8 employers are managed by Fife Council's payroll team and weekly meetings have been taking place to ensure progress is being made on the collection of the data. Due to the number of members involved who have multiple posts, and a change of payroll systems mid-way through the McCloud rectification period, sourcing the data is complex but is expected to be provided within the requisite timescales.*

*Alongside the collation of data, the team have arranged meetings with Heywoods consultants that specialise in updating Altair with McCloud information.*

*The first meeting was positive, and whilst resolving a number of issues, further clarity is required from Heywoods on some aspects of the process.*

*The Scottish Public Pensions Agency (SPPA) advised on the 20<sup>th</sup> September that the regulations in respect of McCloud will come into force from 01 October 2023. The SPPA have advised that funds continue dialogue with software providers over the coming months to ensure we are aware of their implementation timetable.*

## **Pensions Dashboards**

Pensions Dashboards are digital services such as apps or websites, which savers will use to see all their pension information in one place. A saver using the dashboard will be able to search all pension schemes to confirm their total pension benefits.

### *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, including LGPS, will need to be connected by 31 October 2026.*

*Although, the government has pushed the deadline back, work has started with our software suppliers to cleanse data and undertake tracing exercises in preparation for the implementation of dashboards. Further, training sessions have been undertaken with the team and training will be provided to the Committee and Board later in the year.*

### **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.

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, however, further research and work will be carried out in conjunction with our partners to agree reporting and disclosure requirements.

#### *Progress to date*

*Continued implementation of SRIP actions. Initial discussions have taken place on ESG reporting and sourcing of data with our custodian, Northern Trust however, other options may be available. The focus in the coming months will be to undertake research on TCFD requirements and prepare a project plan for implementation.*

### **KPI review**

For the financial year 2023-24, KPI reporting will be expanded to include more indicators and more customer data including a customer satisfaction survey. The process for capturing this data is being considered.

#### *Progress to date*

*Additional KPIs and revised targets were approved by Committee on 30<sup>th</sup> June 2023 and are reflected in this report. Work is has begun to develop the use of Power BI for reporting the KPIs in the future.*

### **Investment Strategy**

Continued implementation of the existing Investment Strategy including, and where appropriate, transition activity. Work will also commence on the updated Investment Strategy, linked into the Actuarial Valuation and the results generated.

#### *Progress to date*

*Actuarial and Investment advisers are working in tandem on both the valuation and the investment strategy review with the first training session for members being held on 15<sup>th</sup> September 2023. Thereafter reports are scheduled to be presented to Committee for consideration and approval.*

- 2.3 Throughout Quarter 2 (July to September) work has been ongoing in relation to the key activities identified and is on target to be completed except for development of

revised Transfer in criteria. This requires further research therefore work will continue into Quarter 3.

- 2.4 An area of work identified in the Business Plan was a continued review of the Governance Documentation in place for the pension fund. To address this work has been advanced in assessing the fund's compliance with the Pension's regulator code of practice 14.

### 2.5.1 **Governance Compliance Checklist**

Back in 2016, the Fund, in conjunction with Hymans Robertson, carried out a compliance check as a measure against the requirements of the Code of Practice. The compliance check covered the Pension Board, policies, procedures and documentation. The analysis was carried out using a checklist developed by Hymans Robertson and identified two immediate actions:

- The requirement for a Reporting Breaches of the Law policy
- The requirement for a risk register specific to the Fund

The results were reported to Committee at that time and subsequent actions taken to address these items with both Reporting of Breaches of the Law Policy and a Risk Register being established.

The tPR has undertaken a consultation on the introduction of a single code of practice. This means that tPR's 15 existing codes of practice are set to be transformed into a clearer, more accessible, single online code, providing one up-to date and consistent source of information on scheme governance and management. It is timely to undertake the process of assessing our compliance with the existing code in readiness for the new code.

Measuring compliance is a self-assessment process whereby the Pensions Governance Group (PGG) has determined if the Fund was fully compliant (green), partially compliant (amber) and non-compliant (red) with the requirements of the code. Details of the evidence of compliance is also assessed in order to determine the level of compliance.

Given this exercise has not been carried out for some time, a 'deeper dive' approach was carried out and a critical review of the evidence available was carried out. This approach has meant that there are a larger number of partially compliant areas compared to the previous review.

For completeness the checklist is summarised as appendix A. Compliance has moved from full to partial in the following areas:

- Governance arrangements associated with the Pension Board
- Conflicts of Interest
- Understanding of AVC options
- Publication of information in relation to the Board
- Scheme Record Keeping
- Member Communication
- Internal Dispute Resolution Procedure
- Breaches of the Law Policy

Where the Fund has determined that there is only partial compliance achieved, actions have been recorded and assigned that will allow the Fund to achieve full compliance e.g. the development of a conflicts of interest policy. In some instances, these actions are linked to audit points, therefore addressing the relevant audit actions will also improve compliance with the code.

Compliance and actions will be used to inform future Corporate Governance statements and the Business planning for the Fund.

Updates on the compliance with tPR code will be presented to Committee and included in future Business Plans. The PGG will consider the compliance checklist on a quarterly basis particularly while actions remain outstanding.

## **3.0 Business as Usual Activity**

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

### **3.2 Business as usual**

Throughout the last quarter, the Team have successfully tested and run the annual Pension Increase Award for all pensioner and dependant's records, and all deferred and pension credit members.

Also, in this quarter the Team have successfully completed all year end processes for all scheme employers. This involves ensuring all members have scheme contributions loaded to their accounts in Altair, and all pay details, CARE Pays and where relevant final salary pays, are updated in Altair.

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

The CARE roll-up programme has been run and the member record validation errors that result when bulk processes are run have been corrected.

The CARE revaluation programme has been run and the member record validation errors that result when bulk processes are run have been corrected.

3.2.1 The annual process to calculate and pay additional pension increase on deferred lump sums which came into payment between 11 April 2022 and 10 April 2023, in accordance with the Pensions Increase Act, has been successfully completed within the statutory timescale. A total of 277 additional payments have been processed and paid this year.

3.2.2 The bulk calculation of Annual Allowance has been run in Altair and members who have reached, or are close to reaching, their Annual Allowance have been identified. Work has started to update Altair, collect additional pay details where necessary and the member record validation errors that result when bulk processes are run have been corrected. The regulations in respect of changing CARE revaluation date have not yet been laid. Therefore, we are in receipt of a letter of comfort from the SPPA that will be shared with members when issuing the pensions savings statements. The statutory deadline for issuing statements is the 6<sup>th</sup> October which we are on target to meet.

3.2.3 The annual pensioner Pay Advice slips, and the P60 certificates, have been produced and issued to our pensioner members.

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

Although out with the quarter being reported, Committee will be interested to know that the annual benefit statement exercise for Active members was also completed by the statutory deadline of 31 August.

3.2.5 Letters have been sent to all members, actives and deferred, who are not registered to MSS notifying them that their annual statement is available to view in their MSS account. The letter also includes instructions on how to register for MSS and an MSS activation key that speeds up the registration process.

### 3.3 **Staff Training and Development**

3.3.1 In-House training is on-going with our new and less experienced staff. We continue to develop and update our processes and procedures to ensure knowledge and understanding within the team continues to grow.

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

### 3.4 **Customer Contact**

3.4.1 The Team has seen a marked increase in the amount of time spent on dealing with queries from members. Contact is made using both email and telephony channels. Throughout the pandemic and lock down arrangements, there was a channel shift to more email communication. The team are fully enabled with telephony we have been able to measure the time spent dealing with calls.

Since the beginning of this year, the team spend on average 28 hours per month answering member calls. Calls vary in length of time with the average being 6 minutes., In addition, a total of approximately 60 hours per month (3 hours every workday) was spent answering emails.

## 4.0 Key Performance Indicators

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### 4.1 KPI 1 - Key Processes - Quarter 1

- 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 1 April 2023 to 30 June 2023, and comparator information for the preceding 4 quarters, is detailed at Appendix B.
- 4.1.3 The performance for quarter one 2023/24, is based on the new KPI levels approved at the June committee meeting. The graphs now show the 3 additional KPIs being reported on, namely Transfers Out, Death Grants and Divorce Settlements.
- 4.1.4 There has been some improvement in the processing of Refunds. Three new team members started in February 2023, and notwithstanding that we are still slightly below our target, we are now beginning to see the benefit of the extensive training that has been carried out.
- 4.1.5 The performance of processing ill health retirals, whilst showing an improvement, remains below target. However, training has been carried out with our payroll team on the Assumed Pensionable Pay calculation and this should ensure that for future cases the information we request is returned more timeously, and in turn this will mean calculations can be processed faster.
- The Pensions Team is also arranging a training session with Fife Council's HR Business Partners to ensure that they are aware of the pension implications when a member goes on half sick pay or out of sick pay. The HR Business Partners will pass the information onto the appropriate managers to ensure their payroll system is updated correctly.
- 4.1.6 Retirals are slightly below target. This is due in part to holidays over the quarter and the fact that new team members continue to develop and are still receiving in-house training.
- 4.1.7 All public sector schemes, including the Scottish LGPS, were advised in March to suspend all transfer calculations until The Government's Actuary Department (GAD) issued revised transfer factors. Revised factors were required due to the change in the SCAPE (Superannuation Contributions Adjusted for Past Experience) discount rate. The SCAPE discount rate is a process for setting employer contribution rates at valuations of unfunded public sector scheme (for example civil service scheme, police scheme). Although the LGPS is a funded scheme, the SCAPE discount rate impacts on transfers in/out of our scheme. We won't therefore see an improvement on the new KPI levels on transfers for a few quarters.
- 4.1.8 Performance on the new KPIs remains consistent across the year and is on above target for both Death Grants and Divorce Settlements.

### 4.2 KPI 2 - Total Days Elapsed

- 4.2.1 This graph details the average amount of days it takes to complete each process reported on in the Key Processes. Once again, the new levels approved at the last committee meeting are shown.

4.2.2 The days elapsed being greater than target for ill health estimates is related to the circumstance outlined in paragraph 4.1.5. Further, the delays in transfers are detailed in paragraph 4.1.7.

### **4.3 KPI 3 – Casework Ongoing**

4.3.1 This table provides a breakdown of the total caseload for each of the 10 key processes. The table illustrates the volume of cases being dealt with by the Team and assessment of processes completed and those that remain outstanding.

4.3.2 In some instances the number of outstanding cases has increased over the period being reported. There has been an increase in respect of processing of retirals. The table highlights that there was a downturn in the amount processed in Quarter 3 of 2022/23 which coincides with changes in staffing and a temporary reduction in resources. The number of cases completed has increased in the last two quarters but there has also been an increase in the number received. The outstanding cases will continue to be monitored.

## **5.0 Conclusions**

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5.1 This report provides members with monitoring information on the Pension Administration Team's performance and service delivery to employers and members of the Fund in the quarter to June 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 - Summary of Compliance with Code 14

Appendix B

KPI 1 – Key Processes

KPI 2 – Total Days Elapsed

KPI 3 – Casework Ongoing

### **Report Contact**

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North Street  
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## Scorecard summary

## Fife Pension Fund

The following gives an at-a-glance summary of the current compliance position against the PSPA2013, tPR CoP14 and LGPS Regulations

General Requirement			
	Current compliance	Previous compliance	Responsibility
Local pension board to be established by 1 April 2015	Full	Full	Legal and Democratic Services
Determine the manner and terms by which members of the local pension board are appointed and removed.	Full	Full	Legal and Democratic Services
Local Pension Board to have equal number of scheme member representatives and employer representatives which is no fewer than 8 in total.	Full	Full	Legal and Democratic Services
To ensure the representation of the pension board has the right balance of skills, experience and representation	Partial	Partial	Legal and Democratic Services
To ensure the pension board is appropriately covered in any code of conduct, conflicts of interest or breaches of the law policies prepared by the administering authority	Partial	Full	Legal and Democratic Services
Pension board members to receive training in respect of these policies	Partial	Full	Legal and Democratic Services
Update - This is around elected members having personnel knowledge and understanding; keeping the training log; look at toolkit; sessions for training for sub-committee and Board - end Spet 17	Full	Full	Legal and Democratic Services
A nominated person to be in place and responsible for ensuring the knowledge and understanding policy is implemented and necessary training delivered	Full	Full	Legal and Democratic Services; part of training and induction program
The administering authority to provide access to the required training (including induction training) for pension board members	Full	Full	Legal and Democratic Services

Knowledge & Understanding			
	Current compliance	Previous compliance	Responsibility
A member of the local pension board must be conversant with the scheme rules and any document recording policy about the administration of the scheme adopted by the administering authority	Full	Full	Legal and Democratic Services
A process should be in place to ensure a member of the local pension board has the knowledge and understanding required of the law relating to pensions and other matters which are prescribed in the Regulations which is sufficient to enable them to perform their duties	Full	Full	Legal and Democratic Services
The administering authority should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding	Full	Full	Legal and Democratic Services
The administering authority should designate a person to take responsibility for ensuring that a framework is developed and implemented.	Full	Full	Democratic Services
The administering authority should prepare and keep an updated list of the documents with which they consider pension board members need to be conversant, including the scheme rules and relevant Fund specific documentation.	Full	Full	Pension Team
The roles and responsibilities of pension board members should be clearly documented	Full	Full	Legal and Democratic Services
Local pension board members are aware of their personal legal responsibilities in terms of knowledge and understanding.	Full	Full	Legal and Democratic Services
The administering authority should assist individual local pension board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties as a pension board member	Full	Full	Legal and Democratic Services
Administering authorities should offer pre-appointment training or mentoring if appropriate	Full	Full	Legal and Democratic Services

Conflicts of Interest			
	Current compliance	Previous compliance	Responsibility
The administering authority should have in place an appropriate conflicts of interest policy, clearly identifying to whom any potential conflict should be reported	Partial	Full	Legal and Democratic Services
The conflicts of interest policy should have a regular review date incorporated in to it	Partial	Partial	L&DS/Pension Team
All those with a responsibility for managing and administering the scheme should understand their own roles in identifying and reporting potential conflicts of interest and the steps involved in reporting any conflicts (or potential conflicts) that might arise	Partial	Partial	L&DS/Pension Team
The administering authority should maintain a register of all conflicts (and potential conflicts) that are raised, reviewing them appropriately	Partial	Partial	Legal and Democratic Services
Declaration of conflicts (or potential conflicts) of interest should be disclosed on appointment and at regular intervals	Partial	Full	Legal and Democratic Services
Declaration of conflicts (or potential conflicts) of interest should be a standing item on all Fund related meetings and agendas	Full	Full	Legal and Democratic Services

Scorecard summary

Fife Pension Fund

The following gives an at-a-glance summary of the current compliance position against the PSPA2013, tPR CoP14 and LGPS Regulations

General Requirement			
	Current compliance	Previous compliance	Responsibility
The administering authority to be satisfied that persons appointed to the local pension board do not have a conflict of interest.	Partial	Partial	Legal and Democratic Services
All pension board & committee members to have a personalised training plan in place that is regularly monitored and updated	Partial	Partial	Legal and Democratic Services
The administering authority to have regard to guidance issued by the Secretary of State	Full	Full	Pension Team

Knowledge & Understanding			
	Current compliance	Previous compliance	Responsibility
The administering authority should maintain individual training plans for local pension board members, together with records of learning activities required	Partial	Partial	Legal and Democratic Services
Local pension board members should invest sufficient time in their learning and development alongside their other responsibilities.	Full	Full	Pension Board/Pension Committee
The members of the pension board should be familiar with the AVC options offered by the Fund, including the choice of investments offered to members and the relative performance of those investment options	Partial	Full	Pension Team
Have pension board members completed tPR's e-learning programme, which is provided to help meet the needs of local pension board members	Partial	Partial	Legal and Democratic Services

Scorecard summary

Fife Pension Fund

The following gives an at-a-glance summary of the current compliance position against the PSPA2013, tPR CoP14 and LGPS Regulations

Publishing Information About the Scheme			
	Current compliance	Previous compliance	Responsibility
The administering authority must publish information about the local pension board and keep that information up to date	Full	Full	Legal and Democratic Services
The published information must include who the members of the local pension board are, their representative role and the matters falling within the local pension boards responsibility	Full	Full	Legal and Democratic Services
The published information should include the local pension board appointment process	Partial	Full	Legal and Democratic Services
The administering authority should publish information about the local pension board's business	Full	Full	Legal and Democratic Services
The administering authority should consider any requests for additional information to be published to encourage scheme member engagement and promote a culture of transparency	Full	Full	Legal and Democratic Services
The administering authority should publish information on the pension board business	Full	Full	Legal and Democratic Services
Managing Risks and Internal Controls			
	Current compliance	Previous compliance	Responsibility
The administering authority is required to have in place internal controls that include adequate systems, arrangements and procedures for the administration and management of the Fund (including external service providers and third parties)	Full	Full	Administering Authority
The administering authority should have in place a process to identify and evaluate risks and establish appropriate internal controls	Full	Full	Administering Authority
The administering authority should have in place a risk register to record all risks and actions taken, which is reviewed regularly	Full	Full	Administering Authority
The administering authority should regularly review the effectiveness of its risk management and internal control processes	Full	Full	Administering Authority

Scheme Record Keeping			
	Current compliance	Previous compliance	Responsibility
The administering authority must be able to demonstrate that they keep accurate, up to date and enduring records to be able to govern and administer the LGPS effectively	Partial	Full	Administering Authority
The administering authority must ensure that scheme member data across all membership categories specified in the Record Keeping Regulations is complete and accurate and the data is subject to regular data evaluation	Full	Full	Administering Authority
The administering authority must keep specific data which will enable it to uniquely identify a scheme member and calculate pension benefits correctly	Full	Full	Administering Authority
The administering authority should require participating employers to provide them with timely and accurate data	Full	Full	Administering Authority
The administering authority should seek to ensure that employers understand the main events which require information about members to be communicated	Full	Full	Administering Authority
The administering authority should have policies and procedures in place for the regular monitoring of data	Full	Full	Administering Authority
The administering authority should carry out regular (at least annually) data reviews	Full	Full	Administering Authority
The administering authority should ensure that appropriate procedures and timescales are in place for scheme employers to provide updated information when member data changes	Full	Full	Administering Authority
The administering authority should be able to trace the flow of funds into and out of the scheme, reconcile these and keep records of transactions	Full	Full	Administering Authority
The administering authority must keep records of pension board meetings and discussions and records of decisions made other than at a local pension board meeting that is later ratified.	Full	Full	Legal and Democratic Services
The administering authority should retain records for as long as they are needed and have in place an adequate system and process for record retention	Full	Partial	Administering Authority

Maintaining Contributions			
	Current compliance	Previous compliance	Responsibility
The administering authority should ensure there are effective policies and procedures in place to identify payment failures and assess the materiality of any failures identified	Full	Full	Administering Authority
Employers should be provided with the necessary guidance to ensure they provide the required information to enable contributions to be monitored	Full	Full	Administering Authority
Where the administering authority identify a payment failure they should follow a process to resolve issues quickly (e.g. monthly monitoring of employer payments to ensure contributions paid on time and in full)	Full	Full	Administering Authority
The administering authority should maintain a record of investigations and communications in relation to payment failures	Not applicable	Not applicable	Administering Authority
The administering authority should review processes or develop a new process which is able to detect situations where fraud may be more likely to occur and where additional checks may be appropriate.	Full	Full	Administering Authority
The administering authority must report payment failures which are likely to be of material significance to tPR	Full	Full	Administering Authority

Scorecard summary

Fife Pension Fund

The following gives an at-a-glance summary of the current compliance position against the PSPA2013, tPR CoP14 and LGPS Regulations

Managing Risks and Internal Controls	Current compliance	Previous compliance	Responsibility
Risk management and internal controls should be a standing item on the Pension Committee and pension board agendas	Full	Partial	Administering Authority

Scheme Record Keeping			
	Current compliance	Previous compliance	Responsibility
Where the administering authority has identified poor quality or missing data there should be a data improvement plan in place	Partial	Full	Administering Authority
The administering authority should reconcile member records with the relevant employers and be able to identify those scheme members who are approaching retirement, those who are active members and those that are deferred members	Full	Full	Administering Authority
The administering authority must ensure that processes created to manage scheme member data are compliant with the Data Protection Act 1998 and data protection principles.	Full	Full	Administering Authority
The administering authority should be able to demonstrate that records are kept in accordance with other relevant legislation	Partial	Full	Administering Authority

Scorecard summary

Fife Pension Fund

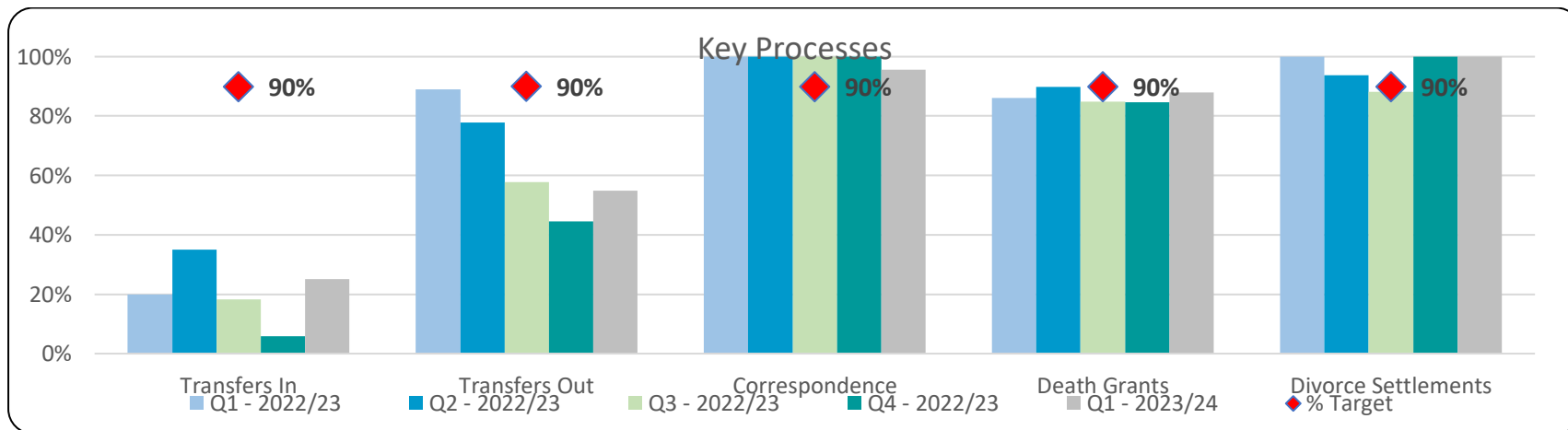
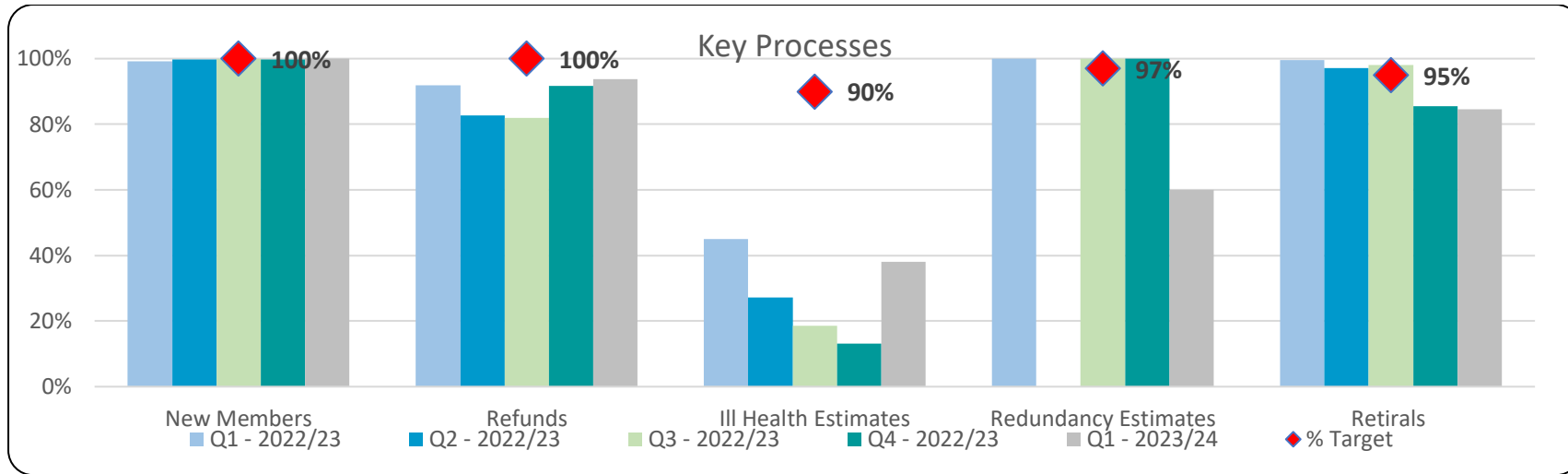
The following gives an at-a-glance summary of the current compliance position against the PSPA2013, tPR CoP14 and LGPS Regulations

Member Communication			
	Current compliance	Previous compliance	Responsibility
Scheme regulations require the administering authority to provide an annual benefit statement to all active, deferred and pension credit members containing certain legal information	Full	Full	Administering Authority
The administering authority should ensure that all members with AVCs are provided an annual benefit statement from their AVC provider within the required timescales and that it contains the required legal information	Full	Full	Administering Authority
The administering authority must provide scheme members with basic scheme information, meeting minimum legal requirements	Full	Full	Administering Authority
Disclosure regulations make provision for scheme members and others to receive information that is relevant to their pension rights and scheme entitlements and provided within certain legal timescales	Partial	Full	Administering Authority
Where information is provided electronically it should comply with legal requirements	Full	Full	Administering Authority
The administering authority should attempt to make contact with their scheme members and where contact is not possible carry out a tracing exercise to locate scheme members.	Partial	None	Administering Authority
Requests for information should be acknowledged if information requested cannot be immediately provided.	Full	Full	Administering Authority

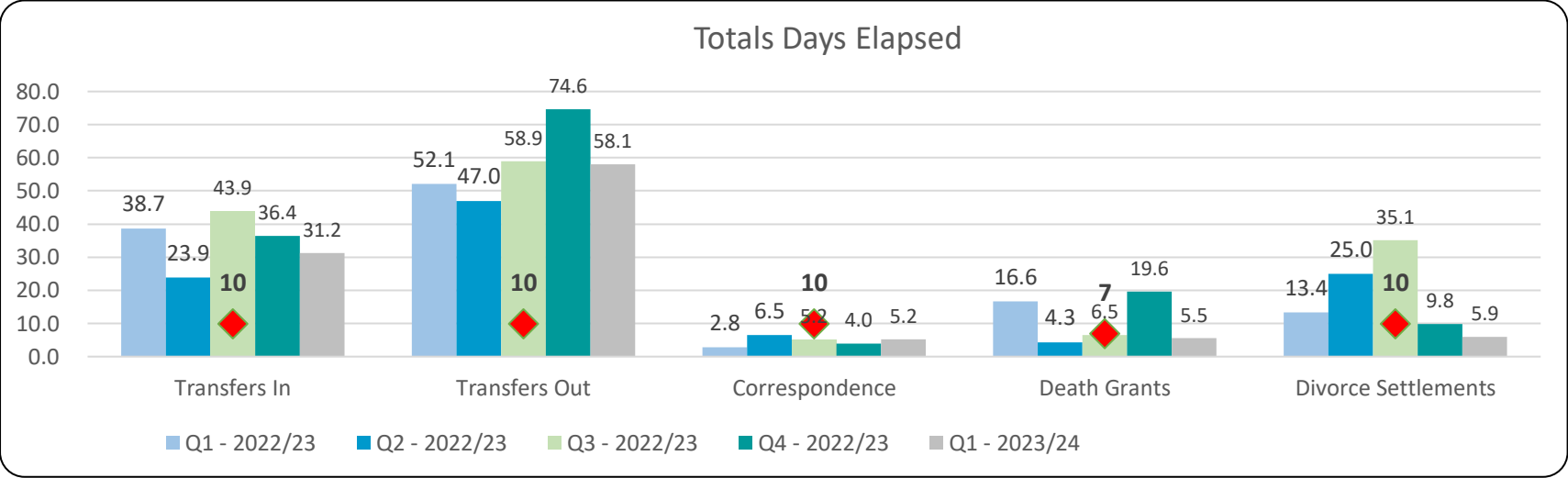
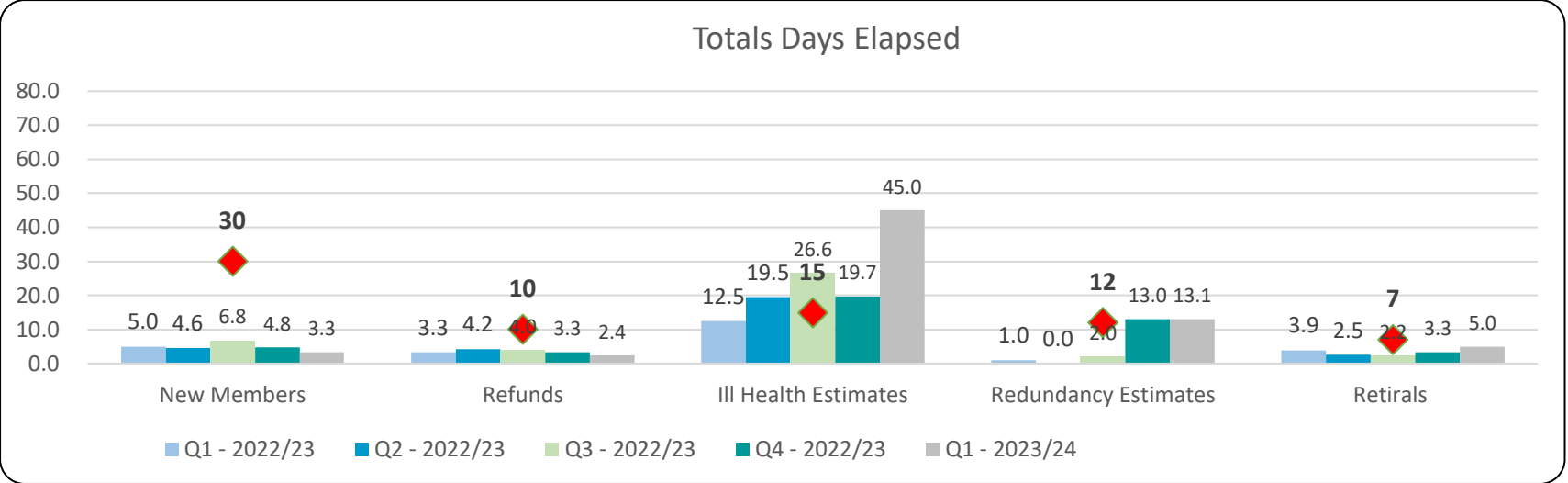
Internal Dispute Resolution Procedure			
	Current compliance	Previous compliance	Responsibility
The administering authority has in place an Internal Dispute Resolution Procedure	Full	Full	Administering Authority
The procedure clearly sets out: - who it applies to; - who the adjudicator is; - the information the applicant must include; - how the final decision is reached - escalation procedures (tepas, Pensions Ombudsman); - appropriate timescales	Full	Full	Administering Authority
The administering authority has ensured all scheme employers have appropriate arrangements in place for dealing with stage 1 disputes	Partial	Full	Administering Authority
The administering authority should regularly review its dispute process to ensure its effectiveness and that the necessary timescales are being met (inc. the employer processes at stage 1)	Partial	Full	Administering Authority
The administering authority should ensure it appropriately draws attention to the pension dispute process in any correspondence or other Fund material where appropriate	Full	Full	Administering Authority

Breaches of the Law			
	Current compliance	Previous compliance	Responsibility
The administering authority should be satisfied that those responsible for reporting breaches of the law are made aware of their legal requirements and the Pensions Regulator's guidance. This includes:  - Officers; - members of the pension board; - any person involved in the administration of the scheme; - scheme employers; - professional advisers; - any other person otherwise involved in advising the Fund	Partial	Full	Administering Authority
The administering authority should have a breaches of the law policy in place	Full	Full	Administering Authority
The administering authority should have identified a person responsible for maintaining the breaches of the law policy, reporting and recording processes	Full	Full	S95 Officer
The administering authority should maintain a breaches log, setting out all breaches, whether or not reported to tPR	Full	Full	S95 Officer

KPI 1: Key Processes



KPI 2: Total Days Elapsed



KPI 3: Casework Ongoing

Appendix B (Cont'd)

Ongoing Casework at End of Reporting Quarter	Q1 2022/23				Q2 2022/23				Q3 2022/23				Q4 2022/23				Q1 2023/24			
Key Process	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding
New Members	1	1081	970	112	112	763	796	79	79	664	720	23	23	562	584	1	1	659	630	30
Refunds	45	190	203	32	32	339	256	115	115	283	368	30	30	255	271	14	14	211	180	45
Ill Health Estimates	4	24	21	7	7	35	23	19	19	22	28	13	13	24	25	12	12	15	23	4
Redundancy Estimates	0	2	2	0	0	0	0	0	0	1	1	0	0	3	1	2	2	3	5	0
Retirals	196	232	212	216	216	199	196	219	219	218	175	262	262	231	197	296	296	248	216	328
Transfers In	37	18	17	38	38	15	25	28	28	12	12	28	28	28	33	33	28	6	55	
Transfers Out	39	46	51	34	34	43	24	53	53	42	47	48	48	47	35	58	58	39	41	56
Correspondence	1	20	20	1	1	28	24	5	5	14	18	1	1	20	19	2	2	24	24	2
Death Grants	41	120	109	52	52	124	117	59	59	128	112	75	75	188	215	48	48	143	143	48
Divorce Settlements	3	12	8	7	7	17	16	8	8	13	18	3	3	19	18	4	4	13	6	11



28 September 2023

Agenda Item No. 8

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## **Risk Management - Quarterly Review**

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

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**Wards Affected:** ALL

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### **Purpose**

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

### **Recommendation(s)**

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The Committee are asked to:

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

### **Resource Implications**

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

### **Legal & Risk Implications**

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

### **Impact Assessment**

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An EqIA Assessment is not required.

### **Consultation**

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

# 1.0 Background

- 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 (previously known as Pentana), Fife Council’s risk management system and is reviewed on a quarterly basis by the Pensions Governance Group, which is an officers group chaired by the Head of Finance.
- 1.2 The risk register forms a key part of the risk management strategy for Fund. It provides a structured and focussed approach to managing risks.
- 1.3 An updated risk register was presented to committee in June. Since that time the register has been reviewed by the Pensions Governance Group at its meeting on 31 July 2023. This review included an assessment of risks and the effectiveness of associated internal controls, as well as considering any additional risks to be added and any additional context.
- 1.4 This report provides an update on the Risk Register since the last Committee.

# 2.0 Risk Register

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	Previous Quarter	Current

- 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 withing the last quarter, the current risk score has decreased for three risks.

- 2.4 Since the last report some of the risks have been updated to reflect the current situation and the status of some areas of work at this time. The risk score has also been updated to reflect these circumstances. Details are as follows:
- Failure of Global Custodian  
  
Two of the internal controls associated with this risk are now considered fully effective. The annual review meeting for 2023 with Northern Trust was held in August 2023 and discussion took place around the monitoring of credit rating arrangements. Northern Trust will include this information within the Key Performance Information provided on a quarterly basis.
  - Failure to comply with LGPS and other regulations.  
  
The level of fully effective internal controls in place, the likelihood of this risk has been updated too “unlikely”. There is a still a possibility, but it is less likely given the controls.
  - Failure to keep records up to date.  
  
The level of fully effective internal controls in place, the likelihood of this risk has been updated too “unlikely”. There is a still a possibility, but it is less likely given the controls.
- 2.5 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 and due for completion by 30 September 2023.
  - 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 recruitment process, newly recruited team members will continue to require training for a period of time.
- 2.6 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.
- 2.7 Taking account of the controls in place, there are currently 7 risks classed as insignificant, 11 classed as low risks and 1 risk is identified as medium.
- 2.8 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 August 2023.
- 2.9 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 (previously known as Pentana) and the presentation for reporting in the future.

- 2.10 The risks are being 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.
- 2.11 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 consider the reporting requirements for Committee to reduce the volume and improve the presentation.

## 3.0 Conclusions

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- 3.1 The Risk Register sets out the original, target and current risk scores for all risks identified. This is reviewed on a regular basis and scores updated to reflect the effectiveness of internal controls.
- 3.2 Regular reporting will 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

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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: 04 September 2023







Risk Status	
	High
	Medium
	Low
	Insignificant

Key - Effectiveness of Internal Control	
	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	
<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>• Non-availability of Altair pension system.</li> <li>• ORACLE payroll system key staff or error omission.</li> <li>• Lack of availability of information and payment from AVC provider etc.</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>• We do not process pension payments and lump sums on time.</li> </ul> <p><b>Which could result in:</b></p> <ul style="list-style-type: none"> <li>• Retiring members being paid late which may have implications for their own finances.</li> <li>• Reputational risk for the Fund.</li> <li>• Financial cost to the fund if interest has to be paid to members.</li> </ul>	<ul style="list-style-type: none"> <li>• Retiring members will be paid late which may have implications for their own finances.</li> <li>• Reputational risk for the Fund.</li> </ul> <p>Financial cost to the fund if interest has to be paid to members.</p>	<ul style="list-style-type: none"> <li>• Non-availability of Altair pension system,</li> <li>• ORACLE payroll system key staff or error omission,</li> <li>• Availability of information and payment from AVC provider etc.</li> </ul>	Laura C Robertson	12	BC plans covering the F& CS Directorate		6	3	25-Aug-2023
					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				
<b>Current Impacts</b>									

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	
<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>• Non-availability of Authority Financials system</li> <li>• No key staff</li> <li>• Errors and/or omissions</li> <li>• Failure of employers' financial systems</li> <li>• Failure to communicate with employers effectively</li> <li>• Failure of employer to provide required information.</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>• We fail to collect and account for contributions from employers and employees on time</li> </ul> <p><b>Which could result in:</b></p> <ul style="list-style-type: none"> <li>• Adverse audit opinion for failure to collect contributions by 19th of month.</li> <li>• Potential delays</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse audit opinion for failure to collect contributions by 19th of month Potential delays to employers' FRS17,FRS102 and IAS19 year-end accounting reports</li> </ul>	<ul style="list-style-type: none"> <li>• Non-availability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively.</li> <li>• Failure of employer to provide required information.</li> </ul>	Laura C Robertson	9	Robust maintenance and update of Altair		3	3	25-Aug-2023
					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.				

to employers' FRS17, FRS102 and IAS19 year-end accounting reports.									
<b>Current Impacts</b>	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	
<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>Contributions from employees/employers being too low</li> <li>Failure of investment strategy to deliver adequate returns</li> <li>Significant increases in longevity, etc.</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>We are unable to meet liabilities as they fall due.</li> </ul> <p><b>Which could result in:</b></p> <ul style="list-style-type: none"> <li>Immediate cash injections being required from employers or increased contribution rates.</li> </ul>	<ul style="list-style-type: none"> <li>Immediate cash injections would be required from employers or increased contribution rates.</li> </ul>	<ul style="list-style-type: none"> <li>Contributions from employees/employers too low</li> <li>Failure of investment strategy to deliver adequate returns</li> <li>Significant increases in longevity, etc.</li> </ul>	Laura C Robertson	12	<p>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. </p> <p>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 </p> <p>Full Actuarial Valuation undertaken every 3 years. </p> <p>Ongoing advice from investment consultants etc </p> <p>Regular monitoring of cash flow </p>	4	4	25-Aug-2023	
									
<b>Current Impacts</b>									











Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
<b>As a result of:</b> <ul style="list-style-type: none"> <li>• Fire</li> <li>• Bomb</li> <li>• Flood</li> <li>• Pandemics</li> <li>• flu epidemic</li> <li>• strike action etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Temporary loss of ability to provide service.</li> </ul>	<ul style="list-style-type: none"> <li>• Fire</li> <li>• Bomb</li> <li>• Flood</li> <li>• Pandemics</li> <li>• Flu epidemic</li> <li>• Strike action etc.</li> </ul>	Laura C Robertson	12	BC plans covering the F& CS Directorate		6	4	25-Aug-2023
					Robust maintenance and update of Altair				
					Hosted contractual arrangement for Altair including Disaster Recovery Plan and Business Continuity Plan				
<b>There is a risk that:</b> <ul style="list-style-type: none"> <li>• We are unable to keep service going due to loss of main office, computer system or staff.</li> </ul>									
<b>Which could result in:</b> <ul style="list-style-type: none"> <li>• Temporary loss of ability to provide service.</li> </ul>									
<b>Current Impacts</b>									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
<b>As a result of:</b> <ul style="list-style-type: none"> <li>• Fraud or misappropriation</li> </ul>	<ul style="list-style-type: none"> <li>• Financial loss to the fund</li> </ul>	<ul style="list-style-type: none"> <li>• Fraud or misappropriation of funds by an</li> </ul>	Elaine Muir	12	Regular monitoring of cash flow		6	3	04-Sep-2023
					Internal and external audit regularly test that appropriate controls are in place and working effectively				

of funds by an employer, employee, agent or contractor  <b>There is a risk that:</b> • We lose funds through Fraud or Misappropriation.  <b>Which could result in:</b> • Financial loss to the fund.		employer, employee, agent or contractor			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				
<b>Current Impacts</b>	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	
<b>As a result of:</b> • Scheme liabilities increase disproportionately as a result of increased longevity • Falling bond yields • Changing retirement patterns, etc.  <b>There is a risk that:</b> • Employers	• 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	25-Aug-2023
					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.				

















become unable to participate in scheme due collapse of private contractors and other bodies admitted into the Fund.  <b>Which could result in:</b> • Fund maturing more quickly.								
<b>Current Impacts</b>	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
<b>As a result of:</b> <ul style="list-style-type: none"> <li>Poor economic conditions.</li> <li>Incorrect investment strategy.</li> <li>Poor performance of investment managers.</li> </ul> <b>There is a risk that:</b> <ul style="list-style-type: none"> <li>There are significant rises in employer contributions due to poor/negative investment returns.</li> </ul> <b>Which could</b>	<ul style="list-style-type: none"> <li>Poor/negative investment returns leading to increased employer contribution rates.</li> </ul>	<ul style="list-style-type: none"> <li>Poor economic conditions, incorrect investment strategy. Poor performance of investment managers</li> </ul>	Elaine Muir	16	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due 	3	3	25-Aug-2023
					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 			
								








<b>result in:</b>									
<ul style="list-style-type: none"> <li>Poor/negative investment returns leading to increased employer contribution rates.</li> </ul>									
<b>Current Impacts</b>	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	
<b>As a result of:</b> <ul style="list-style-type: none"> <li>The financial collapse of the global custodian.</li> <li>Failure to safeguard assets or records.</li> </ul> <b>There is a risk that:</b> <ul style="list-style-type: none"> <li>There is a failure of Global Custodian.</li> </ul> <b>Which could result in:</b> <ul style="list-style-type: none"> <li>Financial loss to the fund.</li> <li>Loss of information.</li> </ul>	<ul style="list-style-type: none"> <li>Financial loss to the fund. Loss of information.</li> </ul>	<ul style="list-style-type: none"> <li>Financial collapse of global custodian or failure to safeguard assets or records.</li> </ul>	Elaine Muir	5	IT contacts are managed and reviewed in line with industry best practice		4	4	04-Sep-2023
					Performance monitored on an ongoing quarterly basis				
					Legal agreement with Custodian				
					Credit Rating monitored on an ongoing basis				
					Regulated by Financial Services Authority				
					Assets not on Custodian balance sheet				
					Annual review meeting which takes place to discuss and ensure contractual obligations have been fulfilled.				
<b>Current Impacts</b>	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
<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>The Market sector falling substantially.</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>The Investment Manager fails to manage equities and other investments.</li> <li>Council's management of the contract with Investment manager.</li> </ul> <p><b>Which could result in:</b></p> <ul style="list-style-type: none"> <li>Financial loss to the fund.</li> </ul>	<ul style="list-style-type: none"> <li>Financial loss to the fund</li> </ul>	<ul style="list-style-type: none"> <li>Market sector falls substantially</li> </ul>	Elaine Muir	4	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due 	3	3	25-Aug-2023
					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 			
								
<b>Current Impacts</b>	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	
<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>Lack of technical expertise/staff resources to research regulations</li> <li>IT systems not updated to reflect current legislation, etc</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>We fail to comply with LGPS and other Regulations.</li> </ul> <p><b>Which could result in:</b></p> <ul style="list-style-type: none"> <li>Wrong pension payments are made, or estimates given.</li> <li>New scheme and regulations are not fully known therefore staff will be unfamiliar.</li> </ul>	<ul style="list-style-type: none"> <li>Wrong pension payments made or estimates given.</li> <li>New scheme and regulations not fully known therefore staff will be unfamiliar</li> </ul>	<ul style="list-style-type: none"> <li>Lack of technical expertise/staff resources to research regulations</li> <li>IT systems not updated to reflect current legislation, etc</li> </ul>	Laura C Robertson	9	Staff training and development and checking of work		6	2	25-Aug-2023
					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.				
									
<b>Current Impacts</b>	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
<b>As a result of:</b> <ul style="list-style-type: none"> <li>Insufficient security of data</li> <li>Inadequate data retention policy</li> <li>Backup and recovery</li> </ul> <b>There is a risk that:</b> <ul style="list-style-type: none"> <li>We fail to hold personal data securely.</li> </ul> <b>Which could result in:</b> <ul style="list-style-type: none"> <li>Data lost.</li> <li>Reputational damage.</li> </ul>	<ul style="list-style-type: none"> <li>Data lost or compromised</li> <li>Reputational risk.</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient security of data</li> <li>Inadequate data retention policy, backup and recovery procedures.</li> </ul>	Laura C Robertson	6	Data Protection Act procedures adhered to and all staff have completed appropriate mandatory DPA training  Secure communications channels in place  System access controlled  Altair complies with the appropriate ISO standards require by a hosted system 	3	3	25-Aug-2023
								
<b>Current Impacts</b>								





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	
<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>Poor or non-existent notification of by employers of new starts</li> <li>Amendments</li> <li>Leavers, etc.</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>We fail to keep pension records up to date and accurate.</li> </ul> <p><b>Which could result in:</b></p> <ul style="list-style-type: none"> <li>Incorrect records leading to incorrect estimates being issued.</li> <li>Potentially incorrect pensions being paid.</li> </ul>	<ul style="list-style-type: none"> <li>Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid</li> </ul>	<ul style="list-style-type: none"> <li>Poor or non-existent notification of by employers of new starts, amendments, leavers, etc.</li> </ul>	Laura C Robertson	9	Robust maintenance and update of Altair		6	3	25-Aug-2023
					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				
									
<b>Current Impacts</b>									













Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
<b>As a result of:</b> <ul style="list-style-type: none"> <li>Lack of training.</li> <li>continuous professional development.</li> </ul> <b>There is a risk that:</b> <ul style="list-style-type: none"> <li>Committee and board members have inadequate knowledge and understanding.</li> </ul> <b>Which could result in:</b> <ul style="list-style-type: none"> <li>Detrimental decisions made in relation to the Pension Fund and management of the fund.</li> </ul>	<ul style="list-style-type: none"> <li>Detrimental decisions made in relation to the Pension Fund and management of the fund</li> </ul>	<ul style="list-style-type: none"> <li>Lack of training and continuous professional development.</li> </ul>	Elaine Muir	8	Provision of training		6	4	25-Aug-2023
					Strategic Investment advice from Independent Advisors				
					Consultation with Peer Groups				
					Attendance at events/webinars				
									
<b>Current Impacts</b>	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	
<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>The specialist nature of work, there are relatively few experts in investments and the LGPS regulations.</li> <li>Staff illness</li> <li>Staff turnover</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>We over rely on key officers.</li> </ul> <p><b>Which could result in:</b></p> <ul style="list-style-type: none"> <li>a knowledge gap.</li> <li>difficulty recruiting staff.</li> </ul>	<ul style="list-style-type: none"> <li>If an officer leaves or falls ill knowledge gap may be difficult to fill.</li> <li>Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.</li> </ul>	<ul style="list-style-type: none"> <li>Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.</li> </ul>	Laura C Robertson	16	Sufficient staff cover arrangements		6	3	25-Aug-2023
					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.				
									
<b>Current Impacts</b>									

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	25-Aug-2023
					Regular updates for employers			
					Newsletter for Pension Scheme members			
					Annual Employer Forum			
<b>Current Impacts</b>								

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	
<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>• Non attendance due to:</li> <li>• Scheduling of meetings</li> <li>• Other commitments of elected members</li> <li>• Adverse weather conditions</li> <li>• Illness</li> <li>• Lack of connectivity for virtual meetings</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>• The committee will not have a quorum able to meet and undertake the business scheduled to be considered at the meeting.</li> </ul> <p><b>Which could result in:</b></p> <ul style="list-style-type: none"> <li>• Meetings not going ahead and decision making is delayed to subsequent meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings do not go ahead and decision making is delayed to subsequent meetings resulting in delay in implementation of any proposals or policy matters.</li> </ul>	<ul style="list-style-type: none"> <li>• Non attendance could be as a result of:</li> <li>• Scheduling of meetings</li> <li>• Other commitments of elected members</li> <li>• Adverse weather conditions</li> <li>• Illness</li> <li>• Lack of connectivity for virtual meetings</li> </ul>	Elaine Muir	12	Standing Orders - As required by the Act and Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014		4	4	25-Aug-2023
					Committee Workplan				
									




resulting in delay in implementation of any proposals or policy matters.									
<b>Current Impacts</b>									

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
<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>a cyber security attack.</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>data is compromised and not secure and systems do not operate.</li> </ul> <p><b>Which may result in:</b></p> <ul style="list-style-type: none"> <li>fraud.</li> <li>sharing of personal details.</li> <li>theft of personal details.</li> <li>Scams.</li> <li>not being able to provide service as systems compromised.</li> </ul>	<ul style="list-style-type: none"> <li>Members may not be paid.</li> <li>Members could have personal details stolen and used for criminal offences.</li> <li>Fraud of pension fund from use of personal details.</li> <li>Reputational risk for the fund.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>Attacks could also mean the system cannot be used and as a result a service cannot be provided.</li> </ul>	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	25-Aug-2023
					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 the 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 investigating all forms of security and Major incidents and lessons are learned from the outcomes 			
					All significant proposed changes to the network, hardware and software are reviewed for potential impact on the infrastructure and to ensure there are contingency rollback options identified before they can go ahead 			
					Tools are in place (including SCOM, Solarwinds) actively monitor the Council's infrastructure with the intention of fixing issues before they become faults. Also improves understanding of where faults are so that they can be resolved quickly 			
					Implement the Scottish Cyber Resilience Public Sector Action Plan. This sets out the key actions that the Scottish Government, public bodies and key partners will take to further enhance cyber resilience in Scotland's public sector. <a href="https://www.gov.scot/publications/cyber-resilience-strategy-scotland-public-sector-action-plan-2017-18/pages/2/">https://www.gov.scot/publications/cyber-resilience-strategy-scotland-public-sector-action-plan-2017-18/pages/2/</a> 			
					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 the Council and is responsible for ensuring the Council's compliance in matters relating to data protection, information governance and records management. The Group will provide annual reports to the SIRO. 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	✓			
									
<b>Current Impacts</b>	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	
<b>As a result of:</b> <ul style="list-style-type: none"> <li>the Fund entering into investment management agreements with Lothian Pension Fund as a fund manager.</li> </ul> <b>There is a risk that:</b> <ul style="list-style-type: none"> <li>there is a conflict of interest in terms of the shared services agreement and arrangements in place for investment advice</li> </ul>	Potential impacts identified for this risk include:- <ul style="list-style-type: none"> <li>decisions not made on independent advice</li> <li>poor investment decisions</li> <li>reduced level of returns</li> <li>lack of diversified investments</li> </ul>	<ul style="list-style-type: none"> <li>Market conditions</li> <li>Performance of mandates</li> <li>Lack of Investment Strategy</li> </ul>	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	25-Aug-2023
					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	✓			

<p><b>Which may result in:</b></p> <ul style="list-style-type: none"> <li>• reduced level of independence in advice being given.</li> </ul>									
<p><b>Current Impacts</b></p>									

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	25-Aug-2023	
									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
									
<b>Current Impacts</b>									



28 September 2023

Agenda Item No. 9

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## **Fraud and Irregularity – Audit Scotland’s Annual Report 2022/23**

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

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**Wards Affected:** All

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### **Purpose**

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To provide Members of the Pensions Committee with a summary of the above national report that has been compiled by Audit Scotland for public bodies and auditors.

### **Recommendation(s)**

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Members are asked to note the contents of Audit Scotland’s 2022/23 Annual Report on Fraud and Irregularity at Appendix A.

### **Resource Implications**

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None.

### **Legal & Risk Implications**

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If the recommendations in the Audit Scotland report are not considered and, where appropriate, acted upon, Fife Pension Fund may be exposed unnecessarily to a higher risk of fraud and irregularity, particularly in the areas highlighted.

### **Impact Assessment**

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

### **Consultation**

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No consultation required.

## 1.0 Background

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- 1.1 Fraud and Irregularity 2022/23 is an annual report prepared by Audit Scotland for all public bodies and auditors in Scotland (see Appendix A). The report shares information about 12 cases where internal control weaknesses in public bodies have led to fraud and irregularity. The cases relate to pensions, payroll, grant payments, procurement cards, school funds, invalid suppliers, and theft of random-access memories (RAMs) from laptops.
- 1.2 The control weaknesses that contributed to the fraudulent and irregular activity were: not checking all details on applications for funding, lack of management checking, no independent confirmation with the customer before changing bank account details, not following procedures, a lack of segregation of duties, weak authorisation processes, lack of awareness of potential fraud risks and poor security arrangements.
- 1.3 The purpose of Audit Scotland's report is to help prevent similar circumstances happening again. External auditors conducting audits in public bodies throughout Scotland have shared specific details surrounding significant frauds and other irregularities during 2022/23. The level of fraud and irregularity reported by external auditors during 2022/23 totalled over £139,000, a very small proportion of the 2022/23 Scottish budget of £56.5 billion.
- 1.4 Public bodies are encouraged to consider whether the internal control weaknesses that facilitated each of the 12 cases highlighted in the 2022/23 Annual Report may exist in their own arrangements and take corrective action if required.
- 1.5 Following work carried out by both Internal Audit and the Corporate Fraud Team, controls have been tightened within Pensions and the Shared Service Centre around changes to customer bank account details. Staff use open-source methods to verify customer contact details prior to independently confirming with the customer that any request to change their bank account details are legitimate. Fraud intelligence (often relating to the types of cases highlighted in the 2022/23 Annual Report) received via a number of sources, including NAFN (National Anti-Fraud Network), SLACIAG (Scottish Local Authorities Chief Internal Auditors' Group) and SLAIG (Scottish Local Authority Investigators Group) is also shared immediately with key members of staff so that prompt action can be taken if required.

## 2.0 Report Recommendations

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- 2.1 The Audit Scotland report recommends that public bodies should ensure they have effective counter-fraud arrangements in place. It also states that auditors should review whether counter-fraud governance arrangements are effective, regularly reviewed, revised as necessary and that internal controls are operating effectively to help prevent fraud and irregularity, including the cases detailed in the report. There is an audit scheduled in Fife Council's 2023/24 Internal Audit Plan on Fraud Governance, which will assess the robustness of the framework in place to identify potential risks arising from fraud (including those relating to pensions) and the measures in place to mitigate them.
- 2.2 The report also suggests ways to reduce counter-fraud risks and prevent fraudulent activity from occurring.

## 3.0 Conclusions

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- 3.1 The Council has a Strategy and Response Plan for the Prevention and Detection of Fraud and Corruption and an ongoing Fraud Plan which is reviewed and updated to include any relevant emerging counter-fraud risks, including those identified in the annual Fraud and Irregularity reports published by Audit Scotland.
- 3.2 The Corporate Fraud Team is currently working with services co-ordinating the 2022/23 National Fraud Initiative (NFI) biennial data matching exercise led by the Cabinet Office, which is designed to help participating bodies detect fraud and error. The Team has provided guidance around the potential risks associated with the receipt of new bank details and made recommendations for improvement, which were implemented, in relation to Pensions Fraud such as strengthening the controls around changes to bank details.
- 3.3 The Audit Team continues to regularly review and evaluate controls and ensure effective governance arrangements are in place. Audit and Risk Management Services will consider whether control weaknesses exist in any of the areas reported, which have not already been covered in previous audit / fraud work or included in the 2023/24 Internal Audit Plan.

### List of Appendices

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- A. Fraud and Irregularity – Audit Scotland’s Annual Report 2022/23

Report Contact:

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# Fraud and irregularity

Annual report 2022/23



# Contents

Key messages	3
Recommendations	4
Fraud and irregularity identified during 2022/23	5
Further information	14

## Accessibility

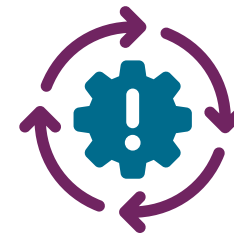
You can find out more and read this report using assistive technology on our [website](#).

For information on our accessibility principles, please visit: [www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility).

# Key messages



- 1 During 2022/23, 12 cases of fraud and irregularity valued over £139,000 were identified. Weaknesses in internal controls contributed to each case identified.



- 2 Auditors have found that public bodies have effective systems, procedures and controls in place to help prevent and detect the majority of fraud and irregularity.

# Recommendations

## **Public bodies should ensure they have effective counter-fraud arrangements.**

### **This includes:**

- undertaking a fraud risk assessment to identify areas at risk
- having effective counter-fraud governance arrangements
- having a counter-fraud strategy and regularly reviewing counter-fraud plans
- regular assessment and review of internal controls
- considering the control weaknesses identified in this report.

### **Auditors should review:**

- whether counter-fraud governance arrangements are effective and regularly reviewed and revised as necessary
- the effectiveness of counter-fraud controls along with the details on the control weaknesses identified in this report.

# Fraud and irregularity identified during 2022/23

Auditors provide Audit Scotland with details of fraud and irregularity discovered in their audited bodies. This report sets out the cases identified during 2022/23 including the details of the control weaknesses which contributed to these cases.

## Aims of this report

**1.** This report shares information where control weaknesses have contributed to fraud and irregularity. This report aims to help prevent similar situations happening in other bodies by sharing the details and highlighting weaknesses in internal controls. Other cases of fraud or irregularity may exist that were not facilitated by weaknesses in internal controls. External auditors<sup>1</sup> identified 12 cases of fraud and irregularity totalling over £139,000 in audited bodies in 2022/23 (seven cases totalling £401,500 were identified in 2021/22). This level of fraud and irregularity is very small when compared to the £56.5 billion Scottish budget.<sup>2</sup>

**2.** The cases included in this report have been investigated internally but will not necessarily have been reported to Police Scotland or to have been proven as fraud in a court of law.

**3.** This report encourages public bodies to consider the cases included in this report and reflect whether the same control weaknesses exist in their own systems. Public bodies are also encouraged to regularly review their counter-fraud arrangements to ensure they remain effective against both existing and newly emerging types of fraud and irregularity.

**4.** The case studies in this report aim to help auditors consider and review the effectiveness of the counter-fraud governance arrangements in their audited bodies.

<sup>1</sup> External auditors report frauds, or suspected frauds, to Audit Scotland where they are caused or facilitated by weaknesses in public bodies' internal controls. Frauds and irregularities are considered significant where the value of the loss is over £5,000 or where it is of significance owing to the nature of the activity.

<sup>2</sup> [Scottish Budget 2022 to 2023: Your Scotland, Your Finances – guide](#)



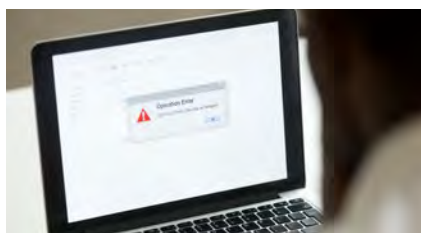
## Fraud and irregularity cases identified in 2022/23

Fraud and irregularity identified during 2022/23 totalled over £139,000 and fell into the following categories:



**5 cases**

Grant payments



**1 case**

Invalid supplier



**1 case**

Procurement card



**1 case**

School funds



**3 cases**

Payroll and pensions



**1 case**

Theft

## Control weaknesses

The following control weaknesses contributed to the fraudulent and irregular activity identified during 2022/23.



Not checking all details on applications for funding



Lack of management checking



No independent confirmation with the customer before changing bank account details



Not following procedures



A lack of segregation of duties



Weak authorisation processes



Lack of awareness of potential fraud risks



Poor security arrangements

Specific details of the fraud and irregularity cases identified during 2022/23 are on the following pages.



# Expenditure

Expenditure fraud relates to cases where a body has incurred additional expenditure because of fraud. This may be due to invalid suppliers, fictitious invoicing, or the redirection of payments intended for legitimate suppliers.

## Case study 1. Grant payments

**Four unknown third parties made four fraudulent grant applications for Covid-19 support totalling £51,000.**

### Key features

Supporting documentation and proof of bank account evidence was provided. The frauds were possible as there were small differences in the business name and email address which were not picked up. The bank accounts used to facilitate the fraud were included in a suspicious activity report; however, due to pressure to ensure grants were paid without delay the applications were processed and paid despite this.

In one case, the fraud was identified after the grant payment was rejected by the bank. In the other cases, a retrospective data-matching exercise identified the frauds.

Retrospective checking including use of a national data-sharing facility has since been carried out on all Covid-19 grant payments.

## Case study 2. Grant payments

**An unknown individual compromised a grant recipient's email account and committed bank mandate fraud. A grant of £12,300 was subsequently paid to the fraudulent bank account.**

### Key features

After informing the grant applicant that their application was successful, the council received a request to change the grant recipient's bank account details.

The request came from the genuine grant recipient's email account and contained an attachment on headed paper requesting the change. The bank details were then changed.

The fraud was identified when the genuine grant recipient reported non-receipt of the funds.

The fraud could have been prevented if the council had contacted the grant recipient to confirm the bank account changes.

The council have since issued bank mandate guidance for staff and existing controls have been strengthened.

### Case study 3. Invalid supplier

**A third party defrauded over £11,000 from a public body by purporting to be a supplier to the body.**

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#### Key features

The public body received a request by email to amend a supplier's bank account details. The supplier's email address had been intercepted by a fraudster who requested the change.

The fraud was possible as the public body did not telephone the supplier to verify the change of bank details.

The issue was identified when the genuine supplier queried why the payment had not been received.

The public body's counter-fraud team has reviewed the process for changing suppliers' bank account details and improvements have been made to procedures.

The matter has been reported to Police Scotland.

### Case study 4. Procurement card

**A manager misused a procurement card to the extent of £5,450 to withdraw cash fraudulently and to make fraudulent payments.**

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#### Key features

The fraud was identified when the manager was on leave and another member of staff looked for the cash.

The fraud was possible as management did not check procurement card receipts or supporting documentation prior to approving expenditure.

The body is reviewing the number of procurement cards holders and approvers and staff are required to complete refresher training on procurement cards. The manager has been dismissed.

## Case study 5. School funds

### A head teacher embezzled over £5,300 from a school fund.

#### Key features

The teacher fraudulently used the school fund purchase card, which was held in the name of another member of staff, for personal purchases. The teacher also falsified an invoice to disguise the payment of a personal membership fee, and misappropriated school fund concert cash that had been entrusted to the teacher.

The fraud was identified after concerns were raised regarding misappropriation of the school fund purchase card.

Subsequent investigations identified that high-value items purchased from the school fund could not be located on the school premises. These items were subsequently recovered from the teacher's home.

The fraud was possible as, due to the seniority of the teacher; the actions were not challenged by other staff. In practice, there was no segregation of duties.

The council has:

- revised school fund procedures
- introduced random sampling of purchase card transactions
- provided fraud awareness and procurement training to school staff.

The case has been reported to the Procurator Fiscal. The teacher resigned following the instigation of disciplinary proceedings.

Items to the value of £1,600 have been recovered.





# Payroll and pension fraud

Payroll and pension fraud relates to people receiving payroll or pension payments to which they are not entitled.

## Case study 6. Payroll fraud

**A council employee failed to report a £25,000 payroll overpayment over a three-year period.**

### Key features

An error in processing a reduction in working hours resulted in an increase to the employee's salary. The error was not identified by the authorising officer, and the employee did not report the overpayment.

The fraud was identified during a data check carried out by the council. The fraud was not detected earlier as the normal annual data checks were suspended during the pandemic.

The council has issued reminder instructions to staff processing and authorising payroll amendments to emphasise the importance of ensuring that details are correct. A new checking process has been introduced that requires staff to verify any change of working hours requests to amendment forms, contracts, and payroll details.

Disciplinary action has been taken and recovery action is in process.

## Case study 7. Payroll fraud

**An ex-council employee failed to report a £10,500 payroll overpayment over a seven-month period.**

### Key features

The employee left the council's employment and moved to a health board following a secondment period. However, the council salary continued to be paid for seven months after the employee left the council.

The fraud was identified when the health board queried an invoice for recovery of the employee's costs.

The fraud was possible as the employee's manager in the council failed to complete a termination form.

The manager has been reminded of the requirement to complete termination forms. The council has reintroduced a previously suspended monthly report requiring managers to confirm the employment status of employees in their service.

A repayment plan is in place to recover the overpayment.

## Case study 8. Pension payments

**A third party claimed over £6,600 from a widower's pension following his death.**

### Key features

The fraudster had notified the pension fund of a change of bank details for receipt of the pension after the pensioner had died. This notification came from the same email account used for the original bank mandate. The personal details provided, along with the signature, matched those on the original bank mandate and it was processed.

The fraud was identified as part of the National Fraud Initiative (NFI).

The fraud was possible as there was limited consideration given to the potential risks associated with the receipt of new bank details. An internal audit investigation identified recommendations to help strengthen controls around changes to bank details.

Police Scotland identified the individual who submitted the fraudulent bank mandate and, following a police caution, the full amount was repaid.



# Theft

Theft relates to cases where someone acts dishonestly appropriating property belonging to another with the intention of permanently depriving the other of it.

## Case study 9. Theft

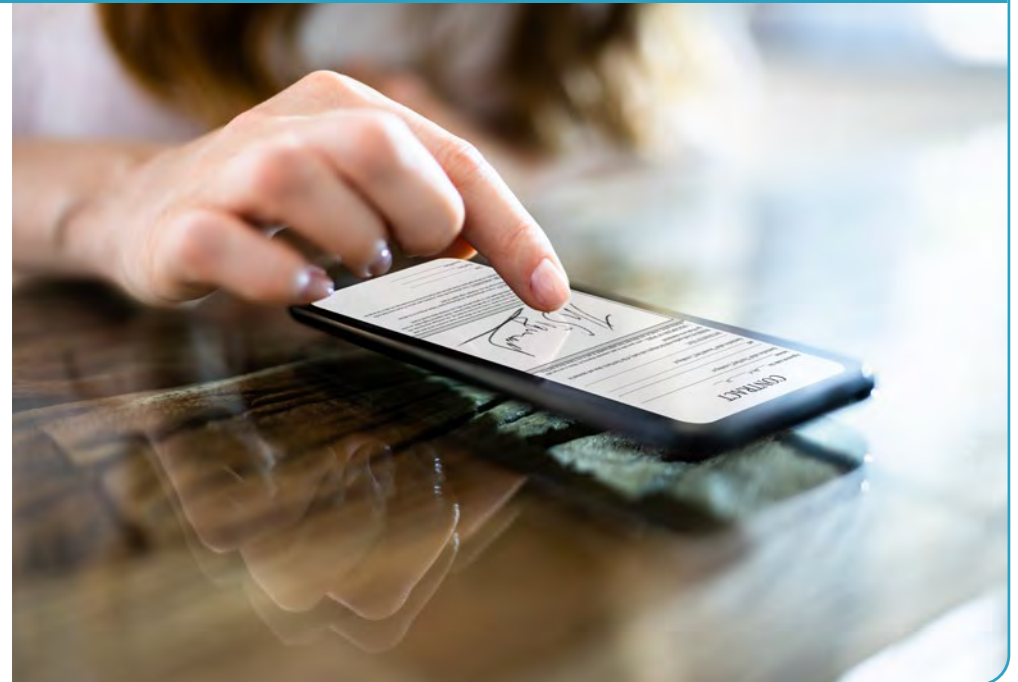
**An unidentified perpetrator stole random access memories (RAMs) valued at £12,000 from laptops stored in the office of a public body.**

### Key features

It was discovered during a stock check that some laptops had been opened and RAMs removed.

The theft was possible due to poor security arrangements. The perpetrator has not been identified due to the absence of CCTV.

Security procedures have been strengthened and a process for controlling the distribution of laptops has been developed.





# Further information

Further information about Audit Scotland's work on counter-fraud is available on our website. This includes information on:



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[Our counter-fraud work](#)



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[The National Fraud Initiative](#)



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[Red flags in procurement](#)



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[Cybercrime:  
A serious risk to  
Scotland's public  
sector](#)



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[SEPA continues  
to count cost of  
cyber-attack](#)

# Fraud and irregularity

Annual report 2022/23



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28 September 2023

Agenda Item No. 10

## **Pensions Committee Workplan**

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

**Wards Affected:** All

### **Purpose**

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

### **Recommendation(s)**

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The Committee is asked to:-

- Consider and comment on the agenda planning document.

### **Resource Implications**

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There are no resource implications arising from this report.

### **Legal & Risk Implications**

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There are no direct legal implications arising from this report.

### **Impact Assessment**

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

### **Consultation**

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None

## 1.0 Background

- 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 2023-24

Report Title	Report Category	Committee Dates		
		14-Dec-23	28-Mar-24	30 May & 28 Jun-24
<b>Administration</b>				
Pension Administration Performance and Business Plan Report	Administration	x	x	x
Review of Administration Strategy	Administration			x
Transfer In Criteria	Administration		x	
<b>Funding</b>				
Actuarial Valuation - Summary of Employer Results	Funding	x		
Actuarial Valuation - Final Valuation Report	Funding		x	
Draft Funding Strategy Statement	Funding	x		
Revised Funding Strategy Statement	Funding		x	
<b>Governance</b>				
Fife Pension Fund Business Plan and Budget	Governance		x	
Fife Pension Fund Annual Report and Accounts	Governance			x
Pension Fund Budgetary Control - Projected Outturn	Governance	x		
Update on Fife Pension Fund Business Plan (combined with Admin report)	Governance	x	x	x
National Fraud Initiative	Governance	x		
Communication Policy	Governance	x		
Update on Annual Audit Plan and Summary of Reports	Governance		x	
Post Audit Review Report	Governance	x		
Annual Internal Audit Report	Governance		x	
Annual Governance Statement	Governance			x
Training and Development	Governance			x

Audit Plans (Internal and External)	Governance		x	
Pension Board Appointment Process	Governance	x		
Pension Board Conflicts of Interest Policy	Governance	x		
<b>Investment</b>				
Fife Pension Fund- Investment Update	Investment	x	x	x
Statement of Investment Principles	Investment			x
Statement of Responsible Investment Principles (update)	Investment			x
Annual Review of Shared Services Agreement	Investment		x	
Investment Strategy	Investment	TBC	TBC	
CEM Benchmarking and Cost Transparency	Investment		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, an additional meeting has been scheduled in May 2024. This meeting has 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.
- 2.3 The report in relation to Transfers In Criteria has been deferred until March 2024 to allow sufficient time for research and consultation with stakeholders and advisers to be carried out.
- 2.4 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.

## 3.0 Conclusions

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- 3.1 A detailed workplan for the business of the Committee has been prepared and outlines the cyclical nature of reports.

### List of Appendices

1. Committee Workplan

### Background Papers

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

### Report Contact

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	Administration Strategy	June 2024
<b>As required</b>	Audit Reports (Internal) Policy Reviews Currency Hedging	