

Pensions Committee

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



Friday, 28 June 2024 - 2.00 p.m.

AGENDA

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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 the meeting of the Pensions Committee of 28 March 2024; 5 – 10
 - (b) Minute of the Pre-meeting of the Fife Pension Board of 27 March 2024; and 11 – 12
 - (c) Minute of the Post-meeting of Fife Pension Board of 28 March 2024 13 – 17
4. **UPDATE ON 2023/24 FIFE PENSION FUND INTERNAL AUDIT PLAN AND 2023/24 ISSUED AUDIT REPORTS** – Report by the Service Manager - Audit and Risk Management Services 18 - 23
5. **2023/24 ANNUAL INTERNAL AUDIT REPORT** - Report by the Service Manager - Audit and Risk Management Services 24 - 42
6. **PENSION FUND ANNUAL GOVERNANCE STATEMENT 2023-24** – Report by the Chief Executive 43 - 59
7. **FIFE PENSION FUND - UNAUDITED ANNUAL REPORT AND ACCOUNTS 2023-24** – Report by the Executive Director, Finance and Corporate Services 60 - 147
8. **PENSION FUND PROVISIONAL OUTTURN 2023-24**– Report by the Head of Finance 148 - 152
9. **FIFE PENSION FUND - BUSINESS PLAN UPDATE TO 31 MARCH 2024** – Report by the Head of Finance 153 - 166
10. **FIFE PENSION FUND - WHISTLEBLOWING REPORTING BREACHES OF THE LAW AND INTERNAL DISPUTE RESOLUTION PROCEDURE** – Report by the Head of Finance 167 - 187
11. **COST TRANSPARENCY AND CEM BENCHMARKING** – Report by the Head of Finance 188 - 193
12. **PENSION FUND TRAINING AND DEVELOPMENT** – Report by the Head of Finance 194 - 201

13. **RISK MANAGEMENT – QUARTERLY REVIEW** – Report by the Head of Finance 202 – 225
14. **NATIONAL FRAUD INITIATIVE** - Report by the Service Manager - Audit and Risk Management Services 226 – 230
15. **PENSIONS COMMITTEE WORKPLAN AND TRAINING PLAN** – Report by the Head of Finance 231 – 235

ITEM LIKELY TO BE CONSIDERED IN PRIVATE

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

16. **PENSION FUND – INVESTMENT UPDATE** – Report by the Head of Finance 236 – 244

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

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

Fife House
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Glenrothes
Fife, KY7 5LT

21 June, 2024

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www.fife.gov.uk/committees

BLENDED MEETING NOTICE

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

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

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

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

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

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

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

THE FIFE COUNCIL - PENSIONS COMMITTEE – BLENDED MEETING

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

28 March 2024

10.00 am – 1.10 pm

PRESENT: Committee - Councillors David Dempsey (Convener), David Alexander, James Calder, Jane Ann Liston and Gordon Pryde.

Fife Pension Board - Councillor Tom Adams, Gail Dunn, Robert Graham, Ross Hugh, Colin Paterson, Thomas Templeman and Vicki Wyse.

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

ALSO ATTENDING: Rob Bilton and Greer Flanagan, Actuary, Hymans Robertson LLP; Albert Chen and Stan Pearson, Lothian Pension Fund; Karen Jones, Andrew Ferguson and Thomas McCormick, Azets (External Auditor) and Clare Scott, Independent Professional Observer.

APOLOGIES FOR ABSENCE: Committee – Councillor Naz Anis-Miah

Fife Pension Board - Councillor Lynn Ballantyne-Wardlaw

90. DECLARATIONS OF INTEREST

Vicki Wyse, Fife Pension Board made a transparency statement relating to Para 95 – Fife Pension Fund - Actuarial Valuation - during the consultation period she represented her employer in the negotiation and discussion process regarding employer contribution rates.

91. CHANGE TO COMMITTEE MEMBERSHIP

The Convener, on behalf of the committee, noted the update to the membership of the committee and welcomed Councillor James Calder to the meeting. Appreciation was extended to Councillor Johny Tepp for his contribution during his time as a member on the committee.

92. MINUTE

(a) The committee considered the minute of the meeting of the Pensions committee of 14 December 2023.

Decision

The committee agreed to approve the minute.

- (b) The committee considered the minute of the meeting of the Fife Pension Board of 14 December 2023

Decision

The committee noted the minute.

93. FIFE PENSION FUND - BUSINESS PLAN UPDATE TO 31 DECEMBER 2023

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

Decision

The committee:-

- (1) acknowledged the progress of key Business Plan activities;
- (2) noted the range of additional activities carried out by the team over the last quarter; and
- (3) acknowledged the level of quarterly performance relative to the target and to the same quarter of the previous year.

94. FIFE PENSION FUND - FUNDING STATEMENT STRATEGY

The committee considered a report by the Head of Finance providing the Funding Strategy Statement, prepared alongside the 2023 Actuarial Valuation. The statement detailed funding issues, contribution rates for individual employers, funding strategy and investment strategy and statutory reporting arrangements.

Decision

The committee:-

- (1) noted, following concerns raised by the Fife Pension Board around transparency relating to the decision to advance the contribution stability mechanism, a full response was provided by the Head of Finance, to give additional assurance around the decision. The Fife Pension Board members acknowledged the response provided and agreed it alleviated the concerns they had raised;
- (2) noted the updates made to the Funding Strategy Statement; and
- (3) agreed to approve the Funding Strategy Statement.

95. FIFE PENSION FUND - ACTUARIAL VALUATION

The committee considered a report by the Head of Finance, providing the final Report on the Actuarial Valuation Report as at 31 March 2023.

Decision

The committee:-

- (1) noted the contents of the Valuation Report;
- (2) agreed the Head of Finance would provide members of the committee with details of correspondence received from members of the Pension Fund expressing their concerns regarding reducing employers contribution rates. The response from the Head of Finance to the Pension Fund members would also be provided for awareness. Communications would also be shared more widely (including with all employers in the Fund) to provide reassurance that members benefits would be guaranteed by regulation; and
- (3) agreed to approve the contribution rates per the Rates and Adjustment certificate detailed in Appendix 5 of the attached valuation report.

96. FIFE PENSION FUND INVESTMENT STRATEGY

The committee considered a report by the Head of Finance providing conclusions on the review of the long-term investment strategy of the Fife Pension Fund (the Fund), and the Strategic Asset Allocation (SAA) of the Fund. The report also detailed the recommended strategy following review and input from the Fund's investment advisers with the recommended SAA having minor amendments compared with the existing strategy as well as name changes for two policy groups.

Decision

The committee:-

- (1) agreed to amend the investment strategy as outlined in paragraphs 2.21 to 2.25 of the report; and
- (2) agreed to update the Fund's Statement of Investment Principles (SIP) to reflect the agreed changes to the strategy, detailed at Appendix 1 to the report.

The committee adjourned at 11.35 am and reconvened at 11.45 am

97. FIFE PENSION FUND BUSINESS PLAN AND BUDGET 2024-25

The committee considered a report by the Head of Finance providing details of the Business Plan 2024-25 for Fife Pension Fund, based on the format of last year's business plan with some additional contextual information added.

Decision

The committee:-

- (1) acknowledged the Business Plan;
- (2) agreed to approve the Business Plan 2024-25, which included the Indicative Budget 2024-25 as detailed in Appendix 2 of the report;
- (3) supported the establishment of a Senior Officer post, with responsibility for the governance of the Pension Fund, including development and management of the delivery of the Pensions function. Support was also expressed to ensure that adequate resources would be provided to manage all future developments and change as required; and
- (4) agreed to include the Pensions Team Structure in a future version of the Business Plan and that the Pensions Team Structure would be circulated to members of the Pensions Committee and Fife Pension Board.

98. UPDATE ON 2023/24 FIFE PENSION FUND INTERNAL AUDIT PLAN

The committee considered a report by the Service Manager, Audit and Risk Management Services, updating on progress towards delivering the 2023/24 Fife Pension Fund Internal Audit Plan.

Decision

The committee noted the update on progress towards the delivery of the 2023/24 Internal Audit Plan at Appendix A to the report.

99. AZETS - ANNUAL AUDIT PLAN FIFE PENSION FUND

The committee considered a report by the Head of Finance providing members with details of Azets External Annual Audit Plan for Fife Pension Fund for the financial year 2023/24 setting out the risks highlighted, planned work, audit scope and timing.

Decision

The committee noted the content of the Azets External Annual Audit plan for 2023/24.

100. POST AUDIT REVIEW

The committee considered a report by the Service Manager, Audit and Risk Management Services, providing an update on progress towards implementing internal audit recommendations previously reported to and agreed by Management.

Decision

The committee noted the contents of the report and the progress made in implementing recommendations.

101. PENSIONS COMMITTEE WORK PLAN AND TRAINING PLAN

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. The report also highlighted the proposed internal training sessions designed to complement committee meetings, which would allow members more time to explore topics in depth.

Decision

The committee :-

- (1) acknowledged the agenda planning document; and
- (2) noted the scheduled training dates.

102. QUARTERLY RISK

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) noted the contents of the report;
- (2) noted that the risks were reviewed on a regular basis and reports would be brought forward on a quarterly basis; and
- (3) reminded members of the Committee and Fife Pension Board there was a mandatory requirement in terms of compliance with attendance at committee meetings and training events and that Party Group Leaders or relevant organisations would be informed if members were not participating as necessary.

Councillor Tom Adams, Fife Pension Board left the meeting during consideration of the above item.

103. ANNUAL REVIEW OF SHARED SERVICES AGREEMENT (PRIVATE REPORT)

The committee agreed 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 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.

The committee considered a report by the Head of Finance providing an update to the Terms of Reference for the Joint Investment Forum (JIF) and an update in relation to the shared service arrangement between the Fife Pension Fund (FPF) and the Lothian Pension Fund (LPF) and gives assurance of continued progress and benefits of collaboration.

Decision

The committee:-

- (1) recognised the continued benefits of collaborative working with Lothian and Falkirk Pension Funds;
- (2) endorsed continued collaborative working; and
- (3) noted the update to the Terms of Reference reflecting the evolving relationship between the Funds.

104. FIFE PENSION FUND INVESTMENT UPDATE (PRIVATE REPORT)

The committee considered a report by the Head of Finance providing a quarterly overview of the Fund's investments at 31 December 2023. A verbal update of manager monitoring activity was provided at the meeting. The triennial actuarial valuation and investment strategy review were detailed in separate reports.

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 December 2023 after returning +5.4% over the quarter;
- (3) that the Fund's strategic policy group allocations were within the permitted allocation ranges;
- (4) that longer term absolute returns were strong and relative returns were above the liability benchmark; and
- (5) that a short life working group would be established to review the content of the investment performance update report with a view to making changes to assist future scrutiny. Members of the committee and board interested in participating in the working group should contact the Head of Finance.

THE FIFE COUNCIL - FIFE PENSION BOARD – PRE MEETING

Remote Meeting

27 March 2024

10.30 am – 11.00 am

PRESENT: Vicki Wyse (Acting Chair – Admitted Body Employer Representative), Gail Dunn (Scheduled Body Employer Representative), Ross Hugh (Member Representative – Trade Union) and Colin Paterson (Member Representative – Trade Union).

ATTENDING: Clare Scott Independent Professional Observer and Wendy MacGregor, Committee Officer, Legal and Democratic Services.

APOLOGIES FOR ABSENCE: Councillor Lynn Ballantyne-Wardlaw (Employer Representative – Fife Council).

Prior to the start of business, in the absence of the Fife Pension Board Chair, Vicki Wyse agreed to take on the temporary position of Chair and reviewed the business on the agenda.

1. DECLARATIONS/CONFLICTS OF INTEREST

Transparency statement submitted by Vicki Wyse - acted on behalf of her employer during negotiations regarding employer contribution rates to the Pension Fund.

2. MINUTE

The Pension Board considered the minute of the meeting of the Fife Pension Board of 14 December 2024.

Decision

The Board:-

- (1) agreed the response provided by the Head of Finance, providing additional assurance around the decision to advance the contribution stability mechanism in the Funding Strategy Statement, alleviated concerns raised by Board members around transparency;
- (2) agreed to approve the minute of the meeting on 14 December 2024;
- (3) noted that future meetings of the Board must be quorate as detailed in the Board's Constitution, with two Employer and two Employee sides of the Board present;
- (4) agreed at the meeting of the Pensions Committee on 28 March 2024, Clare Scott would highlight to the committee reasons the Board could challenge and call in review of committee decisions so new committee members were aware of the process; and

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- (5) noted, following recent training for Board members, Clare would provide an abbreviated version of the training for committee members.

3. FIFE PENSION BOARD ANNUAL REPORT

The Board noted Committee Services had prepared a draft Annual Report for Fife Pension Board which would be submitted to the Board members for consideration in due course.

Clare Scott, IPO, left the meeting during consideration of the following items.

4. OVERVIEW OF AGENDA ITEMS FOR PENSIONS COMMITTEE MEETING ON 28 MARCH 2024

The Board considered the reports on the agenda for the Pensions Committee meeting on 28 March 2024.

Decision

The Board noted:-

- (1) the reports on the agenda for the Pensions Committee meeting on 28 March 2024 and agreed no urgent issues were identified as requiring further clarification; and
- (2) that Ross Hugh had not completed the eight mandatory training modules required as a member of the Pensions Board and agreed the Committee Officer would resend the link to the Pensions Regulator Toolkit. Ross Hugh endeavoured to keep on track with the required training.

5. FIFE PENSION BOARD FORWARD WORK PROGRAMME

The Board considered the content of the forward work programme.

Decision

The Board noted the content of the forward work programme, which would be updated accordingly.

THE FIFE COUNCIL - FIFE PENSION BOARD – POST MEETING

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

28 March 2024

1.15 pm – 1.55 pm

PRESENT: Robert Graham (acting Chairperson – Member Representative – Trade Union), Gail Dunn ((Scheduled Body Employer Representative), Ross Hugh, Colin Paterson, Thomas Templeman (Member Representatives – Trade Unions) and Vicki Wyse (Admitted Body Employer Representative).

ATTENDING: Clare Scott, Independent Professional Observer and Wendy MacGregor, Committee Officer, Legal and Democratic Services.

APOLOGIES FOR ABSENCE: Councillors Tom Adams and Lynn Ballantyne-Wardlaw (Employer Representatives – Fife Council).

28. DECLARATIONS/CONFLICTS OF INTEREST

Vicki Wyse made a transparency statement relating to Pensions Committee Agenda Item No. 7 (para 35 below) - Fife Pension Fund Actuarial Valuation - as during the consultation period she had represented her employer in negotiations regarding employer contribution rates.

29. FIFE PENSION BOARD ANNUAL REPORT

The Fife Pension Board (the Board) noted that a draft Annual Report had been prepared by Committee Services and following consideration by the Head of Finance, a draft copy would be provided to the members of the Board for further consideration.

30. REVIEW OF COMMITTEE DECISIONS/COMMENTS ON REPORTS

The Fife Pension Board considered the reports submitted to the Pensions Committee meeting and whether a review would be required of any decisions made by the committee, as follows:-

- (1) Agenda Item 3 - Change to committee membership

Decision

The Board noted that Councillor James Calder had replaced Councillor Johnny Tepp on the Pensions Committee.

- (2) Minutes

- (a) Minute of the Pensions Committee meeting on 14 December 2023

Decision

The Board agreed they were content with the decision made by the committee and a review would not be required.

- (b) Minute of Pensions Board meeting 14 December 2023

Decision

The Board:-

- (i) noted the minute of the Pensions Board of 14 December 2023, approved at the pre-meeting of the Board on 27 March 2024;
 - (ii) agreed the wording at para. 22 would be amended to read 'Funding Strategy Statement would set the pensions contribution that Fife Council would pay', due to the amendment being identified during the Pensions Committee meeting; and
 - (iii) in regard to para. 26(3)(a), agreed that the response provided by the Head of Finance alleviated concerns raised by the Board in relation to transparency and the timing of the reduction of employer contribution rates, detailed in the Funding Strategy Statement.
- (3) Agenda Item No 5 - Fife Pension Fund - Business Plan update to 31 December 2023

Decision

The Board agreed they were content with the decision made by the committee and a review would not be required.

- (4) Agenda Item No 6 - Fife Pension Fund - Funding Strategy Statement

Decision

The Board agreed they were content with the decision made by the committee and a review would not be required.

- (5) Agenda Item No 7 - Fife Pension Fund - Actuarial Valuation

Decision

The Board agreed they were content with the decision made by the committee and a review would not be required.

- (6) Agenda Item No 8 - Fife Pension Fund Investment Strategy

Decision

The Board:-

- (a) noted the update from the Head of Finance that correspondence had been received from members of the Pension Fund expressing their concerns regarding reducing employers contribution rates. The

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opportunity to view details of the correspondence was welcomed by the Board, which would include the response from the Head of Finance to the Pension Fund members;

- (b) noted that communications would be shared more widely (with all employers in the Fund, rather than only on Fife Council intranet) to provide reassurance that members benefits would be guaranteed by regulation; and
 - (c) agreed they were content with the decision made by the committee and a review would not be required.
- (7) Agenda item no 9 - Fife Pension Fund Business Plan and Budget 2024-25

Decision

The Board:-

- (a) noted that there were staffing resource pressures due to increased governance requirements such as the McCloud judgement, which could result in delays in processing member benefits, transfers etc;
 - (b) agreed they were content with the decision made by the committee and a review would not be required.
- (8) Agenda Item No 10 - Update on 2023/24 Fife Pension Fund Internal Audit Plan

Decision

The Board agreed they were content with the decision made by the committee and a review would not be required.

- (9) Agenda Item No 11 – Azets – Annual Audit Plan Fife Pension Fund

Decision

The Board agreed they were content with the decision made by the committee and a review would not be required.

- (10) Agenda Item No 12 - Post Audit Review

Decision

The Board agreed they were content with the decision made by the committee and a review would not be required.

- (11) Agenda Item no 13 - Pensions Committee Workplan and Training Plan

Decision

The Board reminded members there was a mandatory requirement for training and that Party Group Leaders or relevant organisations would be informed if members were not participating as required.

(12) Agenda Item no 14 - Risk Management – Quarterly Review

Decision

The Board:-

- (a) acknowledged concerns in regard to page 206 of the agenda pack, which showed the current risk score of 9 against a target risk score of 4, due to reduced attendance at training events by Committee and Board members which could result in inadequate knowledge and understanding when making decisions in relation to the Pension Fund; and
- (b) agreed they were content with the decision made by the committee and a review would not be required.

(13) Agenda Item No 15 - Annual Review of Shared Services Agreement (Private Report)

Decision

The Board agreed they were content with the decision made by the committee and a review would not be required.

(14) Agenda Item No 16 – Fife Pension Fund Investment Update (Private Report)

Decision

The Board:-

- (a) welcomed the establishment of the working group to review the content of the investment performance update report. Members of the Board interested in participating in the working group should contact the Chair of the Board or Head of Finance; and
- (b) agreed they were content with the decision made by the committee and a review would not be required.

31. SCHEME ADVISORY BULLETIN

The Board considered the Scheme Advisory Bulletin.

Decision

The Board:-

- (1) noted the contents of the Scheme Advisory Bulletin; and
- (2) agreed that for future meetings, the Scheme Advisory Bulletin would be included on the agenda for the Pre-Meeting of the Board.

32. FIFE PENSION BOARD FORWARD WORK PROGRAMME

The Board considered the Forward Work Programme.

Decision

The Board:-

- (1) noted the contents of the Forward Work Programme;
- (2) agreed to include a regular entry on membership on the Forward Work Programme/agenda to highlight any changes that may occur, following the update that Gail Dunn would be resigning from her position on the Board at the meeting of the Pensions Committee and Board on 28 June 2024 and that the vacancy for a Scheme Employer representative would be advertised; and
- (3) noted that the Board required an increased level of administrative support and that Committee Services did not have the resources to maintain this. The Convener of the Pensions Committee had indicated the Fife Pension Fund was in a good position and could provide additional resource support if necessary. The Board agreed to monitor the situation and if further support was required, the Chair of the Board would approach the Head of Finance to explore the possibility of funding administrative support for the Board.

28 June 2024

Agenda Item No. 4

Update on 2023/24 Fife Pension Fund Internal Audit Plan and 2023/24 Issued Audit Reports

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

Wards Affected: All

Purpose

To submit to Members of the Pensions Committee an update on progress towards delivering the 2023/24 Fife Pension Fund Internal Audit Plan as well as a summary of findings from the Internal Audit Reports finalised since the last meeting of the Pensions Committee.

Recommendation(s)

Members are asked to note the contents of this report, including the update on progress towards delivering the 2023/24 Internal Audit Plan at Appendix A and summary of findings at Appendix B.

Resource Implications

None.

Legal & Risk Implications

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

Impact Assessment

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

Consultation

Audit Services has consulted all subjects of the audit reports.

1.0 Background

- 1.1 The Fife Pension Fund's Internal Audit Plan for the 2023/24 financial year was approved at the Pensions Committee on 30 June 2023.

2.0 Update on 2023/24 Internal Audit Plan & Audit Reports

- 2.1 Fife Pension Fund's 2023/24 Internal Audit Plan has been completed. The final update report is included at Appendix A.
- 2.2 To enable the Pensions Committee to form an opinion on the effectiveness of the internal control environment, to provide assurance where internal controls are working well and to highlight areas for concern, the Service Manager, Audit and Risk Management Services, prepares a summary of the Pension Fund Audit Reports issued by Audit Services at Appendix B.

List of Appendices

- A. Progress Report on the 2023/24 Fife Pension Fund Internal Audit Plan
- B. Summary of Issued Audit Reports

Report Contact:

Shona Slayford

Audit Team Manager, Audit and Risk Management Services

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

Not Yet Commenced	Planning	Fieldwork	Reviewing	Draft Report Issued	Complete / Pensions Committee Date
2023/24 INTERNAL AUDIT PLAN		Proposed Coverage			Status 28/06/24
Governance / Oversight and Scrutiny	High level review of the arrangements in place to ensure there is appropriate governance / oversight and scrutiny of Fife Pension Fund's key activities, including the effectiveness of the Board and Committee.				28/06/24
Investment Strategy Implementation	Review of the governance arrangements in place for seeking / receiving investment advice / guidance (including via the Joint Investment Strategy Panel, JISP) and ensuring related decision making is open, transparent and cognisant of Fife Pension Fund's aims and objectives.				28/06/24
Follow - Up Review (Cyber Security, Report P03/22)	Review undertaken by internal audit staff to provide formal assurances to management and Elected Members that recommendations previously agreed have been implemented				28/06/24
Post Audit Reviews (PARs)	Completion of the PAR exercise, whereby formal assurances are obtained from management that internal audit recommendations have been implemented.				28/03/24
Advice and Guidance	Provision of ad hoc support to assist services in respect of specific queries and contribute to the delivery of improvements in the Fife Pension Fund's framework of governance, risk management and control.				Complete
Specific Investigations	To respond to requests for advice and assistance as required in respect of cases of suspected fraud, corruption or malpractice.				Complete

SERVICE, REPORT AND PURPOSE	SUMMARY OF PENSION FUND AUDIT REPORTS
<p>1. Fife Pension Fund</p> <p>Cyber Security Follow-Up of report (Report P01/23)</p>	<p>The 2023/24 Internal Audit Plan for the Fife Pension Fund contains an allocation of days for Audit Services to carry out a formal follow-up review of one audit report. This allocation is used to assess, through the consideration of evidence, the extent to which recommendations previously agreed with management have been implemented.</p> <p>This audit is a follow-up review of Report No. P03/22, Fife Pension Fund - Cyber Security, which was issued on 7 June 2023.</p> <p>A summary of progress towards implementation of the four recommendations previously agreed with management is as follows:</p> <ul style="list-style-type: none"> • Recommendation one is split into six elements. Three have been fully implemented, one has been partially implemented and the remaining two have not reached their revised implementation dates. • Recommendation two has two elements. One has not reached its revised implementation date and the second has been fully implemented. • Recommendation three has been fully implemented. • Recommendation four has not been implemented. <p><u>Audit Opinion:</u></p> <ul style="list-style-type: none"> • Level of Assurance Grade 2 • System Materiality Grade 5 • Overall Risk Medium <p><u>Findings:</u></p> <p>Further action is required as follows:</p> <ul style="list-style-type: none"> • Pension Fund management should work with Fife Council's BTS service to ensure that they are informed of relevant Security Operations Centre (SOC) alerts once these are available. SOC currently onboarding through June, moving to live in July 2024. • Fife Council's Finance Operations Manager should ensure Ideagen is updated to evidence that a quarterly review of cyber security controls detailed in the Risk Register has been undertaken.

	<ul style="list-style-type: none"> • Pension Fund management should consider the risk of inappropriate data egress and determine whether further mitigations can be applied. Data Loss Prevention (DLP) capabilities being reviewed and implemented during SOC deployment. • Pension Fund management should work with the Council’s BTS and Emergency Resilience services to ensure they are involved in future Council tests of cyber resilience, including implementing relevant lessons learned from the Black Mirror exercise. Pension Fund management should also work with BTS to gain assurance that their systems are considered in the development of relevant cyber incident playbooks. • Pension Fund management should review the Risk Management Manual and formally document the procedures regarding the flow of cyber risk information relevant to the Pension Fund, including information provided by BTS. In doing so management should also ensure that the arrangements for reviewing cyber risk information and accepting risks are documented and implemented. <p>Satisfactory actions have been agreed to address the outstanding element from Recommendation 1 and Recommendation 4 (1 Substantial and 1 Moderate) by 31 December 2024. In addition, the two outstanding elements from Recommendation 1 and one element from Recommendation 2 (all Substantial) should be addressed by their revised implementation date of 31 July 2024.</p>
<p>2. Fife Pension Fund</p> <p>Investment Strategy Implementation</p> <p>(Report P02/23)</p>	<p>This audit reviewed the governance arrangements in place for seeking / receiving investment advice / guidance, including via the Joint Investment Forum (JIF), and ensuring related decision making is open, transparent and cognisant of Fife Pension Fund's aims and objectives.</p> <p><u>Audit Opinion:</u></p> <ul style="list-style-type: none"> • Level of Assurance Grade 1 • System Materiality Grade 5 • Overall Risk Low <p><u>Findings:</u></p> <p>The following area for improvement was identified:</p> <ul style="list-style-type: none"> • The fund’s approved training policy, which forms an integral part of the governance arrangements, requires all members of both the committee and board to undertake 14 hours of training per annum. Members are not always available to attend the investment-related training provided to help them understand / carry out their corresponding roles and responsibilities.

	<p>The recommendation corresponding to this area for improvement is contained within the Pensions Governance, Oversight and Scrutiny Internal Audit report (No. P03/23).</p>
<p>3. Fife Pension Fund Governance / Oversight and Scrutiny (Report P03/23)</p>	<p>This audit is a high-level review of the arrangements in place to ensure that there is appropriate governance, oversight and scrutiny of Fife Pension Fund's key activities, including the effectiveness of the Board and Committee.</p> <p><u>Audit Opinion:</u></p> <ul style="list-style-type: none"> • Level of Assurance Grade 2 • System Materiality Grade 5 • Overall Risk Medium <p><u>Findings:</u></p> <p>The following areas for improvement were identified:</p> <ul style="list-style-type: none"> • The Pensions Governance Group (PGG) does not have a documented remit in place. • The Fund's approved Training Policy, which forms an integral part of the governance arrangements, requires all members of the Committee and Board to undertake 14 hours of training per annum in line with the CIPFA Compliance Checklist. Members are, however, not always available to attend the training provided (which includes governance, administration, investment, and risk) to help them understand / carry out their respective roles and responsibilities. Some are, therefore, not meeting the minimum level. • Whilst risks are managed by the Finance Operations Manager and the risk register is being monitored and reviewed quarterly by the PGG, corresponding action notes and Ideagen do not clearly demonstrate this is the case. <p>Satisfactory actions have been agreed to address the 3 recommendations (1 Substantial and 2 Moderate) by 31 December 2024.</p>

28 June 2024

Agenda Item No. 5

2023/24 Annual Internal Audit Report

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

Purpose

To submit to Members of the Pensions Committee the 2023/24 Annual Internal Audit Report. This report provides an independent annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework and a summary of the key activities of Audit Services during the period from which the opinion is derived.

Recommendation

Pensions Committee is asked to:

1. Consider and note the contents of this report.

Resource Implications

None.

Legal & Risk Implications

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

Impact Assessment

An EqIA has not been completed and is not necessary as this report is not proposing a change or revision to existing policies and practices.

Consultation

None.

1.0 Background

- 1.1 The Terms of Reference of the Pensions Committee includes reviewing and approving the Internal Audit Plan, ensuring that the process has due regard to risk and coverage, and monitoring progress towards its delivery. In addition, the Committee is required to review audit reports submitted by the Service Manager - Audit & Risk Management Services, monitor management action taken in response to audit recommendations made and consider the Internal Audit Annual Report and opinion.
- 1.2 The Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 (updated 1 April 2017), apply to all internal audit service providers within the public sector and set out the requirements in respect of professional standards for these services. Professional Standard 2450, Overall Opinions, states that “the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement”. In the context of Fife Pension Fund, the “chief audit executive” is Fife Council’s Service Manager - Audit and Risk Management Services.
- 1.3 The PSIAS state that the annual report prepared by the chief audit executive must incorporate:
 - the annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control;
 - a summary of the information that supports that opinion;
 - a disclosure of any impairments to scope and / or independence;
 - a statement of conformance with the PSIAS; and
 - the results of the quality assurance and improvement programme (relating to any PSIAS EQAs and self-assessments) and progress against any improvement plans.
- 1.4 The Local Authority Accounts (Scotland) Regulations 2014, which came into effect in October 2014 state that “a local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing”. In this context, recognised standards and practices are deemed to be those set out in the PSIAS. The Regulations require that the local authority must, from time to time, assess the efficiency and effectiveness of its internal audit service, in accordance with the standards, the findings from which must be considered as part of the review of the effectiveness of its system of internal control.
- 1.5 The Internal Audit Annual Report for the 2023/24 financial year, which is attached for consideration by the Pensions Committee, has been prepared on the basis of the requirements outlined above.

2.0 Framework of Governance, Risk Management and Control

Governance

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

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

Risk Management

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

System of Control

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

3.0 Role of Internal Audit

- 3.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It is a fundamental element of the Pension Fund's governance and assurance framework and assists it to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of its governance, risk management and control framework. This role includes the requirement to have a full understanding of the key risks to which the Pension Fund is exposed.
- 3.2 During 2023/24, Audit Services was independent of all the activities it audited. Independence is essential and helps ensure that unbiased judgements and impartial advice can be provided to management.
- 3.3 Audit Services, with strict accountability for confidentiality and the safeguarding of records and information, is authorised full, free and unrestricted access to all records, physical properties and personnel relevant to carrying out any engagement and effectively discharging its remit.
- 3.4 The primary purpose of internal audit is to provide an annual opinion on the adequacy and effectiveness of the Pension Fund's governance, risk management and control framework. The programme of work within the Internal Audit Plan enables that annual opinion to be formed.
- 3.5 The existence of Audit Services does not diminish the responsibility of management to ensure that resources are utilised appropriately, in a manner and on the activities intended and that governance, risk management and control arrangements are sufficient to address the risks.
- 3.6 The Internal Audit Charter sets out in more detail the purpose, authority and responsibility of Audit Services.

4.0 Audit Planning

- 4.1 A key component of the effective management of internal audit is planning audit work to ensure that objectives are met, priorities are established, resources are targeted and used effectively, Best Value is achieved, and cognisance is taken of the risk(s) associated within each area.
- 4.2 To ensure planning is operationally effective, Audit Services is required to have a clear understanding of the Pension Fund's functions / activities, associated risks and range and breadth of potential areas for inclusion within the plan. The Internal Audit Plan is compiled on an annual basis and provides a summary of the areas where it is proposed that work will be carried out during the forthcoming year. The 2023/24 Internal Audit Plan was reviewed and approved by the Pensions Committee at its meeting on 30 June 2023.
- 4.3 The internal audit arrangements are assessed on an annual basis by the Pension Fund's External Auditor, which during 2023/24 was Azets. The activities of internal audit are considered as part of that assessment, principally to obtain an understanding of the work carried out and determine the extent to which any assurances can be placed. This approach helps minimise duplication of effort and unnecessary disruption to services. Audit Services continued to actively engage with external audit colleagues during 2023/24.

5.0 Audit Reports

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

years, the implementation of internal audit recommendations was managed and monitored via Ideagen. The format of the PAR report is designed to facilitate active scrutiny.

6.0 PSIAS Conformance

- 6.1 Audit Services operated in conformance with the PSIAS throughout 2023/24.
- 6.2 A requirement of the PSIAS is that the Chief Audit Executive develops and maintains a Quality Assurance and Improvement Programme (QA&IP) covering all aspects of Audit Services, including both periodic internal self-assessments and five-yearly EQAs. Since the PSIAS came into effect in April 2013, periodic self-assessments, and two EQAs, have been undertaken as required to assess conformance against the PSIAS and identify opportunities for improvement.
- 6.3 The most recent EQA was carried out during 2022/23 through a formal, independent peer review process managed by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). A copy of the full report, detailing the findings, conclusions and recommendation from that assessment was submitted to Pensions Committee on 23 June 2023. A copy of the corresponding Action Plan, containing one recommendation, can be found at Appendix C to this report along with an update on progress towards its implementation.

7.0 Audit Plan Achievement

- 7.1 For the 2023/24 Internal Audit Plan, there was of the order of 55 productive days used directly for audit activities, which is in line with the budgeted productive audit days. Throughout the year, resource was also utilised for support activities, including the strategic management of Audit Services, audit planning and staff training / development. In addition, there has been a noteworthy level of involvement in the national Internal Audit agenda through membership at several national groups / sub-groups. More specifically, membership of SLACIAG and its Management Committee, as well as its Computer Audit Sub-Group; Scottish Local Authority Investigators Group; EQA Sub-Group; and new Risk Management Sub-group. A copy of SLACIAG's Annual Report for 2023/24, which provides an update on activities and achievements throughout the year, along with some of Fife Council's contributions (highlighted in yellow), can be found at Appendix D to this report.
- 7.2 The 2023/24 Internal Audit Plan, which was delivered in full, included two internal audit assignments, as well as an allocation of audit days for a formal follow-up review, the PAR exercise and the provision of advice and guidance.
- 7.3 As part of the continuous improvement process, Audit Services issue client questionnaires to auditees following the finalisation of each audit report. The process is used, where appropriate, to help improve the service. During 2023/24, feedback in relation to audit approach, auditor performance and conduct and the audit report was generally positive. Timing of the audit was, however, identified as an area requiring improvement and steps will be taken to address this, in conjunction with management, during 2024/25.

8.0 Overall Assessment of Governance, Risk Management and Control

- 8.1 Internal Audit activity included specific audits during 2023/24 on Governance, Oversight and Scrutiny, Investment Strategy Implementation and a formal follow-up review on Cyber Security. The types of areas covered continues to reflect the changing landscape of internal audit work, focussing on evaluating, and contributing towards improving the governance, risk management and control framework.
- 8.2 The 2023/24 audits identified that many of the expected controls are in place and operating satisfactorily, however some areas requiring improvement were identified and, Internal Audit reports included recommendations and action plans (developed in consultation with management), which, once implemented, will improve the governance, risk management and control framework.
- 8.3 A total of 3 internal audit reports have been finalised since the last Annual Report was submitted to the Pensions Committee on 30 June 2023. A summary of those reports is attached at Appendix A. Reports have been well received by clients, with management agreeing to implement 100% of the recommendations made. A total of 7 recommendations was contained in the internal audit reports issued, including 3 new recommendations and 4 previous recommendations that were formally followed-up. Of the 7 recommendations, 3 were categorised as substantial and 4 as moderate.
- 8.4 Analysis of the overall audit opinion in each of the reports issued highlighted that, in general terms, 33% of the areas reported upon were controlled as expected (full assurance) and 67% had most expected controls in place and operating effectively, with no critical weaknesses uncovered (reduced assurance). None of the areas reviewed were assessed as having limited or no assurance.
- 8.5 A summary of the outcome of the PAR exercise carried out during 2023/24, which obtained management assurances surrounding progress made towards implementing 37 previously agreed recommendations, can also be found at Appendix A.
- 8.6 The PSIAS requires the Service Manager - Audit and Risk Management Services to provide an internal audit annual opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control. On the basis of the areas used to inform this process for the year to 31 March 2024, the overall audit opinion reached is that reasonable assurance can be placed upon the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control.

9.0 Conclusions

- 9.1 The governance framework comprises the systems, processes, culture and values by which the activities of the Pension Fund are directed and controlled and through which they are accountable to, engage with, and where appropriate, lead the community.
- 9.2 Risk management is a fundamental element of good governance and decision making. The Pension Fund's risk management arrangements are designed to

support, on a continuous basis, the identification, assessment and management of risks as well as the monitoring, reviewing and reporting of them.

- 9.3 The system of control is a significant part of the framework of governance, risk management and control, comprising a whole network of established controls and actions taken by management / others to effectively mitigate risk and help provide reasonable assurance that the aims and objectives of the Pension Fund can be achieved.
- 9.4 Internal audit is a fundamental element of the Pension Fund's governance and assurance framework and assists it to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving its effectiveness. During 2023/24, Audit Services was independent of all the activities it audited and operated in conformance with the PSIAS.
- 9.5 The 2023/24 Internal Audit Plan, which was delivered in full, two internal audit assignments, as well as an allocation of audit days for a formal follow-up review, the PAR exercise and the provision of advice and guidance.
- 9.6 A total of 3 internal audit reports have been finalised since the last Annual Report was submitted to the Pensions Committee on 30 June 2023. Reports have been well received by clients, with management agreeing to implement 100% of the recommendations made.
- 9.7 On the basis of the areas used to inform this process for the year to 31 March 2024, the overall audit opinion reached is that reasonable assurance can be placed upon the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control.

List of Appendices

- A. Summary of Internal Audit Reports and 2023/24 PAR Exercise
- B. Service Manager - Audit and Risk Management Service's - Annual Opinion
- C. PSIAS - EQA 2022/23 Action Plan - Progress Update
- D. SLACIAG Annual Report 2023/24

Report Contact

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Summary of Internal Audit Reports and 2023/24 Progress Review Exercise

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

i) Summary of Internal Audit Reports Issued

Report No.	Area Reviewed	Level of Assurance	Recommendations			
			Total No.	Importance		
				Critical	Substantial	Moderate
P01/23	Follow-up Review of Cyber Security	R	4 (including 2 with multiple elements)	-	2 (Rec 1 - 1 element-FI, 1 element-NI; Rec 2 - 3 elements-FI, 1 element-PI, 2 elements-NI)	2 (1-FI, 1-NI)
P02/23	Investment Strategy Implementation	F	-	-	-	-
P03/23	Governance, Oversight and Scrutiny	R	3	-	1	2
Totals			7	-	3	4

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

ii) Summary of 2023/24 Post Audit Review (PAR) Exercise

As part of the 2023/24 Internal Audit Plan, a total of 37 recommendations from 7 internal audit reports were subject to a PAR. In line with the previous exercises, an update on recommendations with implementation deadlines up to an agreed cut-off date were included. The cut-off date utilised for reporting was March 2024. Implementation of the recommendations within the new audit reports will be monitored in line with these standard working practices.

A summary of the outcome of the PAR exercise is detailed in the table below. A report providing more detail on the progress made towards implementing the internal audit recommendations previously reported to and agreed by management was presented to the Pensions Committee on 28 March 2024.

No. of Recommendations	Fully Implemented	Partly Implemented	Not Implemented	No Longer Applicable
37	26 (70.2%)	1 (2.7%)	9 (24.4%)	1 (2.7%)

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

As Service Manager - Audit and Risk Management Services, I am pleased to present my annual opinion for the year ended 31 March 2024.

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

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

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

Control Environment

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

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

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

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

- a Pensions Committee and Pensions Board with appropriate processes and procedures in place to identify and manage conflicts of interest;
- an appropriate officer responsible for the day-to-day management of the Fund i.e. Fife Council's Executive Director - Finance & Corporate Services, delegated to the Head of Finance;
- Joint Investment Forum (JIF) of the Fife, Falkirk and Lothian Pension Funds and independent advisers;

- Independent Professional Observer, Custodian and Investment Managers;
- an ongoing review of governance and risk management arrangements, including risk register by the Pensions Governance Group;
- appropriate, regularly reviewed policies and strategies;
- regular financial and administration performance reports to Committee; and
- unqualified external audit opinion in previous years' annual accounts.

The Work of Internal Audit

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

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

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

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

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

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

Summary of Internal Audit Activity

A total of 3 internal audit reports have been finalised since the last Annual Report was submitted to the Pensions Committee on 30 June 2023 covering Governance, Oversight and Scrutiny, Investment Strategy Implementation and a formal follow-up review on Cyber Security. Audit services also undertook a comprehensive PAR exercise during the year and provided advice and guidance as required.

The 2023/24 audits identified that many of the expected controls are in place and operating satisfactorily, however some areas requiring improvement were identified and, Internal Audit reports included recommendations and action plans (developed in consultation with management), which, once implemented, will improve the governance, risk management and control framework.

Limitation of Scope or Independence

There was no limitation of scope or independence placed upon the work undertaken by the Audit Services during 2023/24.

Basis of Opinion

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

- Audit work undertaken by Audit Services during the year and carried out in prior years with agreed improvements being implemented.
- The assessment of risk carried out during preparation of the Internal Audit Plan.
- Reports issued by the Pension Fund's External Auditor during 2023/24, together with other relevant reports.
- My knowledge of the culture, governance, risk management and performance monitoring arrangements in place.

Opinion

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control for the year to 31 March 2024.

Pamela Redpath FCCA

Service Manager – Audit and Risk Management Services, Fife Council

DATE: 12 June 2024

PSIAS - EQA 2022/23 ACTION PLAN – PROGRESS UPDATE

No.	Original Finding / Recommendation	Grading	Progress Update	Implementation Status
1	<p>Attribute Standard 1200 - Proficiency and Due Professional Care</p> <p>Since the Service Manager commenced employment in November 21, there have been no formal assessments of continuous professional development needs carried out. However, there have been a number of training and development opportunities that staff have benefitted from since the Service Manager took up post (e.g. e-learning, power BI training, attendance at SLACIAG presentations, technical reading, Better Governance Forum Newsletters etc.). The Audit Team Manager has also organised Personal Development Plan meetings to be held in March 2023 with all professionally qualified auditors, with the rest of the team to follow. In addition, it is the responsibility of each individual member of staff to maintain training records and keep their employee development up to date in line with their requirements of their professional bodies as required.</p> <p>The Service Manager should implement their plans for CPD within the Internal Audit Service. This should look to ensure that there are annual assessments of the team's CPD needs against predetermined skills and competencies.</p>	Routine	<p>Formal assessments of each team member's skills and competencies were carried out in 2023/24 utilising the Council's Personal Development Plan methodology, supplemented with the use of a recognised skills and competencies framework for the internal audit profession.</p> <p>Development needs and opportunities will continue to be discussed during 1-2-1s / team meetings throughout the year.</p>	Fully Implemented

Critical	Critical
Significant	Significant
Routine	Routine



ANNUAL REPORT FROM THE CHAIR – 2023

“WORKING TOGETHER TO SUPPORT THE KEY ROLE OF INTERNAL AUDIT”

1. INTRODUCTION

- 1.1 Membership of the CIPFA Scottish Local Authorities Chief Internal Auditors’ Group (SLACIAG) is open to the chief internal auditor from each Scottish local authority and the Strathclyde Partnership for Transport (SPT). SLACIAG is a Special Interest Group of CIPFA in Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.
- 1.2 SLACIAG’s vision is to be the voice of internal audit across Scottish local authorities and a driving force for best practice in respect of local authority and public transport bodies internal audit, governance, and operations.
- 1.3 In support of that vision, SLACIAG has the following objectives:
- to secure a quality and responsive service for members of the group;
 - to develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government with a particular emphasis on governance, risk, control and assurance matters;
 - to strengthen links and build long term relationships across the internal audit community within the public service;
 - to provide an effective group for the discussion of issues of common concern, sharing of good practice and commissioner of work to develop advanced practice;
 - to consider the development and training needs of our people as a collective to ensure that the best available products are procured at the best price;
 - to uphold the group’s key values including: respect; openness and honesty; adding value; professional team working; sharing best practice; integrity; continuous improvement.
- 1.4 The purpose of this annual report to key stakeholders is to provide an update on SLACIAG’s activities and achievements over the course of 2023 and to recognise actions required to achieve its vision.
- 1.5 SLACIAG has two long-established sub-groups whose activity is reflected in this report:
- the Computer Audit Sub-Group (CASG); and
 - the Scottish Local Authorities Investigators’ Group (SLAIG).
- 1.6 During 2023 some further sub-groups were established by SLACIAG to lead on development actions arising from the SLACIAG Conference held in June 2023 within specific themes, including risk, data analytics, resourcing, and sustainability/climate change. Their activity is also reflected in this report.

2. MANAGEMENT COMMITTEE

- 2.1 I, Jill Stacey, Scottish Borders Council, was appointed as Chair of SLACIAG at the AGM on 11 March 2022. I previously served as Chair of SLACIAG during 2014-2015. In accordance with SLACIAG’s Constitution, my term of office will expire after serving 2 years at the SLACIAG AGM in March 2024. There is an expectation that the Chair of SLACIAG joins the meetings of the CIPFA Scotland Branch Executive Committee, as SLACIAG is a special interest group of CIPFA in Scotland.

- 2.2 Yvonne Douglas, South Lanarkshire Council, was re-elected as Treasurer of SLACIAG at the AGM March 2022 having initially been appointed to the role in June 2020. Yvonne provided regular updates on the financial position of SLACIAG to enable the Management Committee to plan activity.
- 2.3 The appointments to the SLACIAG Management Committee were approved at the AGM March 2022. New members were welcomed to the Management Committee, with former Chairs providing valuable continuity. The same membership has continued during 2023, as follows:

SLACIAG MANAGEMENT COMMITTEE 2023		
Jill Stacey	Scottish Borders Council	Chair SLACIAG
Yvonne Douglas	South Lanarkshire Council	Treasurer SLACIAG
Eilidh Mackay	East Ayrshire Council	member and former Chair
Kenneth Ribbons	West Lothian Council	member and former Chair
Pamela Redpath	Fife Council	member
Gillian McConnachie	East Dunbartonshire Council	member
Duncan Stainbank	East Lothian Council	member
Duncan Black	Glasgow City Council	member
Peter Moore	East Lothian Council	Chair CASG
Barry Moncur	East Dunbartonshire Council	Chair SLAIG

- 2.4 There were six SLACIAG Management Committee virtual meetings during 2023 in January, February and July (weekly meetings). The purpose of these meetings was to reflect on learning and review actions arising from past meetings in order to forward plan meetings, considering topics, setting dates and arranging speakers. The weekly meetings held in July 2023 were to analyse the extensive content from the workshop Menti results from the Conference to determine actions for the Group and sub-groups, take early steps to re-focus and re-purpose the SLAIG and CASG sub-groups, consider new sub-groups, and agree future collaborations to implement actions.
- 2.5 The Chairs of both CASG and SLAIG participate in the SLACIAG Management Committee meetings to derive benefits from their sectoral expertise and to ensure synergy when forward planning the regular meetings.
- 2.6 The Management Committee also oversees the External Quality Assessment (EQA) process, which is a peer review process established by SLACIAG to enable external validation of compliance with the Public Sector Internal Audit Standards (PSIAS). The Management Committee monitors progress with completion against a recommended programme of reviews each year to ensure that all participating organisations comply with the requirement to undertake an EQA once every 5 years.

3. SCOTTISH LOCAL AUTHORITIES CHIEF INTERNAL AUDITORS GROUP (SLACIAG)

SLACIAG Conference 2023

- 3.1 The SLACIAG Conference was held on 15-16 June at Dumfries House in East Ayrshire, the first in-person conference held since 2019. The event was attended by 137 delegates from Internal Audit teams representing 31 local authorities and Strathclyde Partnership for Transport.
- 3.2 There were excellent networking opportunities for all individuals, significant sharing of knowledge and practice during the workshop sessions, and lots of suggestions for improvement actions in keeping with the conference title ‘Connections Collaborations Catalysts’.
- 3.3 The themes of the conference were:
- Counter fraud
 - Data analytics

- Climate change
 - Resourcing the function.
- 3.4 Keynote speakers were the Chief Executive of East Ayrshire Council and the Executive Director of Finance of Glasgow City Council. They shared their perspectives on the role of Internal Audit in challenging times, the value of Internal Audit and the vital role it has in councils across the country (not only in terms of providing assurance, but through insight and advice on a whole range of areas of work) and reflected on the significant challenges facing the public sector. They also acted as catalysts for the workshop connections and collaborations each day.
- 3.5 There were also a range of virtual and in-person speakers including representatives from:
- Tenancy Fraud Forum
 - Scotland Excel
 - Chartered Institute of Internal Auditors
 - Birmingham City Council
 - Sustainable Scotland Network
 - Audit Scotland.
- 3.6 Images from the SLACIAG Conference 2023 were featured in East Ayrshire’s blog for that week and the #SLACIAG23 hashtag was used to promote the event through social media. Digital tools were used to capture output from the workshop sessions.

SLACIAG Meetings 2023

- 3.7 There were three other SLACIAG virtual meetings in 2023 with topics/speakers set out in the table below in addition to core business. The network continues to be strongly supported by members with a focus on significant and current issues.

Date	Topics / Speakers
17 March 2023	<p>AGM</p> <ul style="list-style-type: none"> • SLACIAG Annual Report 2022 (Chair) • SLACIAG Constitution (Chair) • SLACIAG Annual Accounts 2022 (Treasurer – Yvonne Douglas, South Lanarkshire Council) <p>Consultation on Internal Audit Standards (CIPFA Group)</p> <ul style="list-style-type: none"> • Francis Scott, Glasgow City Council <p>Group discussion on CIA Issues and Challenges</p> <ul style="list-style-type: none"> • Duncan Black, Glasgow City Council
15 & 16 June 2023	<p>SLACIAG Conference 2023 title ‘Connections Collaborations Catalysts’</p> <p>The themes of the conference were:</p> <ul style="list-style-type: none"> • Counter fraud • Data analytics • Climate change • Resourcing the function. <p>There were also a range of virtual and in-person speakers including representatives from:</p> <ul style="list-style-type: none"> • Tenancy Fraud Forum • Scotland Excel • Chartered Institute of Internal Auditors • Birmingham City Council • Sustainable Scotland Network • Audit Scotland

Date	Topics / Speakers
8 September 2023	<p>Management Committee / Sub-Groups recommendations arising from SLACIAG Conference 15 and 16 June 2023</p> <ul style="list-style-type: none"> • SLACIAG Management Committee <p>CIPFA Publication 'Internal audit: untapped potential' (learning and development session including a broad range of Chairs and Vice Chairs from Scottish Council's and IJB's Audit Committees)</p> <ul style="list-style-type: none"> • Diana Melville, CIPFA Governance Advisor <p>EQA2 Update and EQA3 Planning</p> <ul style="list-style-type: none"> • Pamela Redpath, EQA Sub-Group – Lead, Fife Council
8 December 2023	<p>Update from Risk Group – draft Terms of Reference</p> <ul style="list-style-type: none"> • Pamela Redpath, Fife Council, Eilidh Mackay, East Ayrshire council, and Jill Stacey, Scottish Borders Council <p>SLACIAG Risk in Focus 2023 – Analysis of Key Risks and Potential Impact on Internal Audit Assurance Work</p> <ul style="list-style-type: none"> • Pamela Redpath, Fife Council <p>Update from Data Analytics Group (Workshops; Skills; Strategy)</p> <ul style="list-style-type: none"> • Duncan Black, Glasgow City Council <p>Update from Resourcing Group (Challenges; Training; Delivery Model)</p> <ul style="list-style-type: none"> • Laura Calder, City of Edinburgh Council <p>Update from Sustainability / Climate Change Group (Shared audit experience; Information Requests; Membership)</p> <ul style="list-style-type: none"> • Laura Miller, North Ayrshire Council

3.8 The Treasurer, Yvonne Douglas of South Lanarkshire Council, produced the 2022 annual accounts, which were considered by the Group at the AGM in March 2023. Thanks to those at South Ayrshire Council for completing the audit of the 2022 Accounts. The Treasurer provided regular updates on the financial position of SLACIAG which is of particular importance during 2023 due to the significant income and expenditure associated with the Conference to ensure the Group remains financially sustainable. Thanks to Yvonne for her professionalism in fulfilling this role.

External Quality Assessment (EQA)

3.9 There are increasing challenges for the EQA2 schedule including staff resourcing issues in Councils, knock-on effect of delays in EQA2 completions during the pandemic response and recovery periods, and conflicts of interest arising from increased Internal Audit shared services arrangements. Responsibility is on the reviewee Council CAE to meet EQA requirements and to keep their Audit Committee informed of any delays in meeting the 5-year timeframe.

3.10 The appointments to the re-established SLACIAG EQA Sub-Group and Moderation Panel were approved at the December 2022 meeting. The same membership has continued during 2023, as follows, to oversee the completion of the EQA2 schedule, and initiative planning of the EQA3 schedule:

EQA Sub-Group		Moderation Panel	
Pamela Redpath	Fife Council	Paul MacAskill	Argyll & Bute Council
Andrew Paterson	Orkney Islands Council	Ken Adamson	North Lanarkshire Council
Cecilia McGhee	South Ayrshire Council	Gordon O'Connor	Stirling Council

New Sub-Groups

- 3.11 SLACIAG agreed to formally constitute the **Data Analytics subgroup** at the December 2023 meeting and appointed Duncan Black, Glasgow City Council (GCC) as CAE lead/sponsor, with Will Hart, GCC, as coordinator of workshops. SLACIAG agreed to an iterative workplan (all to offer to organise presentations and topics). GCC had hosted a Data Analytics workshop that had been held in-person in September 2023 in Glasgow, then virtual workshops were held in October and November 2023 to which CASG members were invited as an opportunity to share practice. There had been very good participation at all these workshops including Scottish Government (September), South West Audit Partnership (SWAP) (November), and Derek Jamieson of Chartered Institute of Internal Auditors (CIIA).
- 3.12 At the September 2023 meeting, it was agreed to set up a **Resourcing Group** to cover all matters resourcing our teams including recruitment, succession planning, training, soft skills, ways of working, and mentoring. Volunteers for Resourcing Group were Laura Calder (City of Edinburgh Council) - Lead, Eilidh Mackay (East Ayrshire Council), Richard Fox (Dumfries & Galloway Council), Michelle Blair (East Renfrewshire Council), Cathie Wyllie (Angus Council/Dundee City Council).
- 3.13 At the September 2023 meeting, volunteers were approved to join a short life **Sustainability / Climate Change Group** to develop an Internal Audit Programme covering the broad aspects of this topic, linked to new statutory guidance that is being developed by Sustainable Scotland Network in collaboration with SLACIAG and Audit Scotland on the Role of Audit. Volunteers were Laura Miller (North Ayrshire Council), Andrew Steven (East Lothian Council), Chris Hurt (Scottish Borders Council), Paul Brown (East Dunbartonshire Council), Paul Davies (East Ayrshire Council).
- 3.14 At the December 2023 meeting whilst noting that not all CAEs have the corporate risk management framework as part of their remit, **a Risk Group was established with an approved Terms of Reference**. Volunteers were Jill Stacey (Scottish Borders Council), **Pamela Redpath (Fife Council)**, Eilidh Mackay (East Ayrshire Council), with their corporate risk officers, and Kenneth Ribbons (West Lothian Council).

SLACIAG Knowledge Hub

- 3.15 All Agendas, Minutes, and Presentations of SLACIAG meetings, Conference, EQA Framework Guidance, and other relevant documents are uploaded to the SLACIAG Knowledge Hub to enable access by all members in a secure way. New Members have been registered on the SLACIAG Knowledge Hub, including those delegates at the SLACIAG Conference 2023, thus enabling greater participation.

4. COMPUTER AUDIT SUB-GROUP

- 4.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, new and current topics of interest, and computer audit developments, resources, and techniques.
- 4.2 The Computer Audit Sub Group (CASG) met twice in 2023, all meetings were virtual, with topics/speakers as follows in addition to core business:

Date	Topics / Speakers
23 March 2023	<p>Power Query</p> <ul style="list-style-type: none"> • Callum Justice, Glasgow City Council - CASG acknowledged that Power Query is a useful tool to use for members who don't have other data analytics systems such as IDEA and are dealing with large amounts of data.

30 August 2023	<p>Cyber Security in Internal Auditing</p> <ul style="list-style-type: none"> Adam Howie, Glasgow City Council
29 November 2023	<p>Introduction to AI</p> <ul style="list-style-type: none"> Recorded Teams presentation from Charlie Anderson, Head of BTS (Business Technology Solutions), Fife Council <p>AI and Ethics of AI</p> <ul style="list-style-type: none"> Recorded Teams presentation from Fi Williams, Team Manager (Digital Skills and Learning), Fife Council

- 4.3 A common discussion point at CASG meetings during 2023 has continued to be the sustainability of the sub-group. One specific action arising from the SLACIAG Conference June 2023 has been discussion on widening the role and outputs of CASG in light of suggestions to cover, for example, Digital Transformation, Artificial Intelligence (AI), IT/Cyber Security, and Data Analytics, in addition to core Computer Audit work. The sub-group is keen to influence its future, as evidenced by the topics at August and November 2023 meetings.
- 4.4 It was also agreed that one of the SLACIAG Management Committee would be assigned as Senior Sponsor of CASG to provide direction from SLACIAG re Group’s cycle of meetings and agendas; this will be considered as part of the AGM business in March 2024.
- 4.5 All Agendas, Minutes, and Presentations for CASG meetings are uploaded to the SLACIAG Knowledge Hub (CASG sub-folder) to enable access by all members in a secure way.

5. SCOTTISH LOCAL AUTHORITY INVESTIGATORS GROUP (SLAIG)

- 5.1 The main aim of the Scottish Local Authority Investigators Group (SLAIG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss counter fraud practices and developments. This includes raising awareness of updates to legislation, new and current topics of interest, and developments in counter fraud activities.
- 5.2 The Scottish Local Authority Investigators Group (SLAIG) met four times in 2023, all meetings bar one were virtual, with topics/speakers as follows in addition to core business:

Date	Topics / Speakers
1 March 2023	<p>Presentation on the work of the Scottish Social Security Agency</p> <ul style="list-style-type: none"> John Gregson, Dean Liddle & Susan Marr – SSSA Intelligence and Teresa Cullen and Amanda Bissett - SSSA Investigation Team <p>Brief update presentation on the Digital Economy Act (2017)</p> <ul style="list-style-type: none"> Jabeen Kamran, Michael Sowerby, Ryan White - Cabinet Office and Alison Dewar, Scottish Government
31 May 2023	<p>Presentation on the work of Trading Standards Scotland entitled ‘Opportunities for Joint Working’ and sharing case studies</p> <ul style="list-style-type: none"> Andy Wilson, Principal Investigator, Trading Standards Scotland
30 September 2023	<p>Feedback from the SLACIAG Conference June 2023 to outline and discuss ongoing objectives for SLAIG</p> <ul style="list-style-type: none"> Jill Stacey, Chair of SLACIAG, Scottish Borders Council
13 December 2023	<p>Overview of role of HMRC RIS Intelligence Bureau</p> <ul style="list-style-type: none"> Lucy Biggerstaff and Audrey Fulton, HMRC RIS Intelligence

Date	Topics / Speakers
	<p>Outline of the facility to provide local authorities in Scotland and England to trace and verify individuals</p> <ul style="list-style-type: none"> • Jacqueline Davenport and Steve Black, LOCTA <p>Case Study - Sharing lessons learned from case study where a Head Teacher had embezzled School Funds</p> <ul style="list-style-type: none"> • Stuart Saunders, West Lothian Council

5.3 In order to align with the vision and objectives of SLACIAG and SLAIG’s Terms of Reference, one specific task arising from the SLACIAG Conference June 2023 assigned to SLAIG was the Benchmarking on fraud activity and resources. It has been agreed that all local authorities will participate in a benchmarking exercise. The core content of the exercise has still to be agreed but will also include resources, training, and outcomes. It was also agreed that one of the SLACIAG Management Committee would be assigned as Senior Sponsor of SLAIG to provide direction re Group’s meetings and agendas; this will be considered as part of the AGM business in March 2024.

5.4 All Agendas, Minutes, and Presentations of SLAIG meetings, and other relevant documents are uploaded to the SLAIG Knowledge Hub to enable access by all members in a secure way.

6. CONCLUSION

6.1 Notwithstanding the challenges that continue to affect our organisations, SLACIAG and its sub groups have had another successful year, as evidenced by the attendance at our 2-day in-person Conference at Dumfries House, East Ayrshire, as well as other virtual meetings, and the range of topics discussed.

6.2 During the year Chief Internal Auditors: considered matters such as consultation on Internal Audit Standards, data analytics, counter fraud and crime, climate change, and internal audit developments; discussed key issues facing our assurance functions, including resourcing, workforce planning, and the skills and knowledge mix; and shared approaches being taken to address these. In line with their remits, the CASG and SLAIG sub-groups focussed on computer audit and counter fraud matters respectively. New Data Analytics, Resourcing, and Sustainability/Climate Change sub-groups were established during the year to explore and develop specific matters.

6.3 I would like to thank the Management Committee and the office bearers of our sub groups for their work in organising meetings and responding to the challenges that have arisen. I would also like to thank our speakers for giving up their time to join us at our Conference and other virtual meetings during 2023 and assist us in enhancing our effectiveness as internal auditors and fraud investigators.

6.4 My thanks are also extended to our members for their support, as evidenced not just by engaging in our Conference and other virtual meetings during 2023, but also by the generous advice and assistance provided in relation to the myriad of audit, risk and governance questions which have arisen within our membership during the year.

6.5 I am very proud to have been SLACIAG Chair for the past two years, engaging with such dedicated and hard-working public sector professionals in these challenging times.

Jill Stacey
Chief Officer Audit & Risk, Scottish Borders Council
Chair of SLACIAG
14 March 2024

28 June 2024
Agenda Item No. 6

Pension Fund Annual Governance Statement 2023-24

Report by: Ken Gourlay, Chief Executive

Wards Affected: N/A

Purpose

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

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

Recommendation(s)

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

Resource Implications

None.

Legal & Risk Implications

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

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

Impact Assessment

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

Consultation

None

1.0 Background

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

2.0 Assurance Process

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

3.0 Conclusion

- 3.1 The Council's Code of Corporate Governance and the related systems of internal control are a significant part of the framework designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore provide only reasonable and not absolute assurance that objectives will be met, assets are safeguarded, transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

- 3.2 It should be noted that the Pension Fund Annual Governance Statement has been prepared prior to the completion of the annual accounts and annual audit and any items identified in either of these processes may require to be reflected in the final statement prior to final publication with the audited annual accounts.

List of Appendices

Pension Fund Annual Governance Statement 2023-24

Appendix A – Governance Compliance Statement

Report Contact

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FIFE PENSION FUND ANNUAL GOVERNANCE STATEMENT

Roles and Responsibilities

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

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

Fife Council carries out its role as Administering Authority via

- The Pensions Committee
- The Fife Pension Board
- The Joint Investment Forum
- 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. The work of the PGG will now incorporate assessing and monitoring the requirements of the new Pension Regulators General (single) Code of practice including preparing a gap analysis and action plan for moving towards compliance.

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 administering 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 risk 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 2024 | Fife Pension Fund](#) and [Funding Strategy Statement 2024 | 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 (code 14), with that approach now to be applied to the new Pension Regulators General (single) Code of practice
- 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 investment 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 \(fife.gov.uk\)](#)

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

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

Pension Committee Attendance													
Date		Cllr. Dempsey (convener)	Cllr Pryde (vice convener)	Cllr Davidson	Cllr Liston (from June 23)	Cllr Alexander	Cllr Neal	Cllr Patrick	Cllr Anis-Miah (joined Oct 23)	Cllr Calder (joined Feb 24)	Cllr Dillion (resigned June 23)	Cllr Mowatt (Resigned Oct 23)	Cllr Tepp (resigned Feb 24)
23rd June 2023		✓	✓			✓	✓	✓				✓	✓
30th June 2023		✓	✓			✓	✓	✓				✓	✓
28th September 2023		✓	✓	✓	✓	✓	✓	✓				✓	✓
14th December 2023		✓	✓	✓	✓	✓	✓	✓	✓				✓
28th March 2024		✓	✓		✓	✓				✓			
% Attended		100%	100%	40%	100%	100%	80%	60%	50%	100%	0%	100%	100%
Training in Year													
PF Training 29th May	3 hours												
PLSA Conference 8th and 9th June	15 hours												
PF Training 28th August	2 hours												
Investment Strategy Training	3 hours												
LGPS Cost Transparency Training	2 hours												
LGC Seminar 19/20 October	8 hours												
PF Training 23rd November	3 hours												
Webinar The General Code of Practice and Next Steps for the LGPS	1 hour												
Investment Strategy Training (SAA)	3 hours												
PLSA Conference 27, 28 and 29 Feb	15 hours												
PF Training 04 March	3 hours												
Other training	Various												
Total Hours in year		53	20	25	18	19	14	14	2	5	3	7	23

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.](#)

In line with its constitution, Fife Pension Board has prepared and published an annual report, details can be found here (add website link once uploaded).

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

Pension Board Attendance at Committee											
Date		Cllr. Adams	Cllr Ballantyne-Wardlaw	Gail Dunn	Robert Graham	Ross Hugh	Colin Paterson	Vicki Wyse	Thomas Templeman (from Nov 23)	Ian Dawson (resigned Nov 23)	
23rd June 2023		✓	✓	✓	✓	✓		✓		✓	
30th June 2023				✓	✓	✓		✓			
28th September 2023			✓	✓	✓	✓	✓				
14th December 2023		✓	✓	✓	✓	✓	✓	✓	✓		
28th March 2024		✓		✓	✓	✓	✓	✓	✓		
% Attended		60%	60%	100%	100%	80%	60%	80%	100%	33%	
Training in Year											
PF Training 29th May	3 hours										
PLSA Conference 8th and 9th June	15 hours										
PF Training 28th August	2 hours										
Investment Strategy Training	3 hours										
LGPS Cost Transparency Training	2 hours										
LGC Seminar 19/20 October											
PF Training 23rd November	3 hours										
Webinar The General Code of Practice and Next Steps for the LGPS	1 hour										
Investment Strategy Training (SAA)	3 hours										
PF Board Training Governance	1.25 hours										
PLSA Conference 27, 28 and 29 Feb	15 hours										
PF Training 04 March	3 hours										
Other Training	Various										
Total Hours in year		46.25	22.25	21.25	14.25	13	19.75	16.25	16.25	3	
Key											
Not Completed Mandatory Training											
Training Completed / Attended											
Training Partially Completed /Attended											
Not applicable											

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
- Ensure 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 to ensure that the Fund's governance adheres to the Pension Regulator Code of Practice No.14 checklist (and the new Code in the future), as well as reviewing the risks associated with the fund to ensure they all are controlled appropriately. As such, the group review and update the Fund's 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. A major development for the group is the introduction of the Pensions Regulator General Code of Practice which was effective from 28 March 2024. The group will be taking forward an assessment of current practices and policies against the code, preparing a gap analysis and an action plan in order to provide assurance to the Pensions Committee and Pension Board.

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 advisory services from its arms-length organisation LPFI Limited, the investment services company owned by Lothian Pension Fund. This is the fifth year of collaboration and officers have continued to participate in the Joint Investment Forum (JIF), formally known as the Joint Investment Strategy Panel (JISP)

Strategic investment advisory services are provided by LPFI Limited and, two independent Investment Advisers as members of the JIF. 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 JIF meets on a quarterly basis and there is regular dialogue with advisers of LPFI Limited and the independent advisers 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 considers advice from the JIF, including the independent advisers before assessing the risk and return and managing the implementation process.

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 intended benefits sought through the collaboration arrangement.

The Fund employs a number of investment managers who 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, making tax claims and securities lending on behalf of the fund.

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) is employed to provide expert 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 Committee meetings and participated in providing training at internal training events, as well as attending 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 help the fund achieve 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, the valuation process 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
Gresham House Forest Carbon	ISAE 3402	Reasonable Assurance	Grant Thornton UK 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
Equitix	ISAE 3402	Controls suitably designed	BDO LLP
Infracapital Greenfield partners	ISAE 3402	Reasonable Assurance	PWC LLP
Macquarie Infrastructure Debt Fund 2 LP	ISAE 3402	Controls suitably designed	PWC LLP
Adrian Infrastructure TSH Fund	ISAE 3402	Reasonable Assurance	PWC LLP
Alcentra Direct Lending	ISAE 3402	Reasonable Assurance	Deloitte
Madison MCF Senior Debt Fund	SSAE18	Reasonable Assurance	KPMG LLP
Madison MCF Sent Debt Fund IT	SSAE18	Reasonable Assurance	KPMG LLP
LPFI	Controls Letter	Reasonable Assurance	Azets
Custodian			
Northern Trust	SOC1 Report	Reasonable Assurance	KPMG LLP

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 2023-24 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 2023-24 the following assurance reviews were undertaken

- Follow up review (Cyber Security)
- Investment Governance
- Governance
- 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 2024.

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 and this has been improving compliance and progress is being made.

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 training requirement required by 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

Governance Arrangements – Areas of Improvement and Development

Several areas of improvement were identified for 2023-24 and beyond. The following sections provides details of those completed and an action plan for future developments to be taken forward.

Completed Improvements

- An in-depth review of compliance with the Pension Regulator's Code 14 was undertaken, including updating the self-assessment checklist and a critical review of evidence available to support assessment. This did result in some activities moving from full compliance to partial compliance. Where this was the case, actions have been identified and assigned to allow the fund to move towards full compliance.
- A full review and update of the Funding Strategy Statement was undertaken during the year to improve the layout and flow of the document.
- The Pensions Committee and Pension Board were provided with in-house training covering investments, governance and an introduction to the LGPS. Throughout 2023-24 training sessions have been provided covering:

- Induction Training
 - Valuation 2023
 - Cyber Security, Cost Transparency
 - Governance in LGPS and Good Governance Review, Pension Fund Annual Report and External Audit process
 - Investment Strategy including Strategic Asset Allocation
 - Pension Dashboards
 - tPR General Code of Practice
 - Cessation Amendments and New Regulations
 - PLSA Conference
 - LGC Investment Seminar
- Induction training was also carried out for new members in September, December 2023 and March 2024.
 - A Business Plan was developed and presented to Committee for 2023-24. Quarterly reporting was improved to include progress against the Business Plan. Revised KPI information was also reflected in the quarterly reports alongside progress on business-as-usual activities.
 - Controls around Cyber Security have been enhanced and regularly reviewed to ensure they remain effective, including assurances from suppliers, staff training and staff awareness.

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 complementing committee business will continue for Committee and Board members with evaluation questionnaires being used to improve and enhance the event going forward. A review of the General Code of Practice is scheduled to take place which may highlight further training requirements. Consideration will also be given to adopting a knowledge assessment process to allow identification of knowledge gaps which will also inform training requirements.	Pensions Service Manager	Ongoing
Recognising that there is only partial compliance in relation to attendance at 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.	Pensions Service Manager	December 2024
The Pension Regulator General Code of Practice came into effect from 28 March 2024. This code brings together 10 of the 15 codes of practice into one single code consisting of 51 modules across 5 sections. There are two additional areas of compliance added to the code, these being Cyber Controls and Scams. Work will be undertaken to carry out a gap analysis and assessment of Fife Pension Fund's compliance with the revised code and an action plan prepared to address any gaps. Regular updates on this work will be provided to committee as part of the quarterly reporting process.	Pensions Service Manager	December 2024

Review of the Risk Management Manual including the policy and framework. Additionally, the process for recording and reviewing risks will also be revised to ensure that the outcome of risk reviews are formally recorded in the appropriate system.	Pensions Service Manager	March 2025
There are aspects of the Administration Service Review that was carried out in conjunction with Hymans Robertson that are yet to be taken forward. 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. This will be advanced following the appointment of the Pensions Service Manager	Pensions Team Leader	Ongoing

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 2023 to 31 March 2024 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)
Structure				
1.1	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Responsibility rests with the Pensions Committee, a Committee of Fife Council. The Council's List of Committee Powers sets out the Committee's remit.	Yes	
1.2	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The Committee is made up of 9 councillors from Fife Council. The establishment of the Pension Board has formalised the involvement of employers and trade unions representing the 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.		

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Representation				
2.1	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.	The Committee and Pension Board meet jointly for every Committee meeting. Chair of Pension Board also attends agenda planning meetings		
	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 meetings.	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	
Selection and Role of Lay Members				
3.1	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	All new members of the Committee are required to attend induction training, which also provides them with guidance from the Council's Democratic Services Division about their role and responsibilities. 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	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Voting				
4.1	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	The 9 councillors have equal voting rights.	Yes	
Training/Facility Time/Expenses				
5.1	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility, time and reimbursement of expenses in respect of members involved in the decision-making process.	A training policy 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 reported to and undertaken by the Committee.	Yes	
Meetings (frequency/quorum)				
6.1	That an administering authority's main committee or committees meet at least quarterly.	Meetings are held quarterly and additional meetings are held when necessary.	Yes	
6.2	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable – there is no secondary committee or panel.		

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
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	
Access				
7.1	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members, Board representatives and observers are treated equally in terms of access to papers, documents and advice.	Yes	
Scope				
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the committee includes all pension related matters within the terms of Local Government Pension Scheme legislation and the Pensions Regulator requirements.	Yes	
Publicity				
9.1	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	The Annual Governance Statement and Governance Compliance statement are included in the Pension Fund Annual Report and Annual Accounts. Council governance documents are available on the Council website	Yes	

28 June 2024

Agenda Item No. 7

Fife Pension Fund - Unaudited Annual Report and Accounts 2023-24

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

Wards Affected: All

Purpose

This report contains the unaudited Annual Report & Accounts for Fife Pension Fund for the financial year 2023-24

Recommendation

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

Resource Implications

None.

Legal & Risk Implications

None.

Policy & Impact Assessment

None.

Consultation

None.

1.0 Background

- 1.1. The Local Authority Accounts (Scotland) Regulations 2014 require the unaudited Annual Report and Accounts for the Fife Pension Fund to be submitted to the appointed auditor no later than 30 June. The regulations also require elected members to consider these at a meeting held no later than 31 August.
- 1.2. Best practice is recognised in Local Government Circular 7/2014 which outlines it is for the Committee whose remit includes audit or governance functions, to have formally considered the unaudited Annual Report and Accounts prior to submitting them to the appointed auditor, and making them available for public inspection. This best practice approach has been adopted by Fife Pension Fund for many years and ensures that the committee can consider and become familiar with the content of the unaudited Annual Report and Accounts in advance of the public inspection period. This forms part of the overall governance of the Fund.
- 1.3. Formal consideration of the unaudited Annual Report and Accounts by the Committee is required to address, and to help mitigate, any risk of the Committee not agreeing to approve the audited Annual Report and Accounts for signature.
- 1.4. The unaudited Annual Report and Accounts have, once again, been completed within the statutory timeframes and will be submitted to External Audit following this meeting.
- 1.5. The unaudited Annual Report and Accounts contains full details of the Governance Compliance statement which is subject of a separate report on this agenda.
- 1.6. The Annual Report and Accounts will be made available for public inspection from Monday 1st July 2024 to Monday 22nd July 2024 (inclusive). Details of the public inspection process were publicised on Monday 1th June 2024.
- 1.7. Consideration of the unaudited Annual Report and Accounts at this meeting complies with the regulations.
- 1.8. The audit process will commence on 1st July 2023. During that process any necessary audit adjustments will be made to the accounts as appropriate. Final accounts and an annual audit report are due to be presented to this Committee on 30th September 2024.

2.0 Issues

- 2.1. Whilst presenting the annual report and accounts is a statutory requirement, it is recognised that the report is technical in nature and interpretation of the financial statements can be complex. To assist with understanding of the documents and the requirements in relation to the document, a short presentation will be provided during committee that will outline the content and associated requirements.

- 2.2 Presentation of the unaudited Annual Report and Accounts is an opportunity for the committee to review the governance and financial management arrangements of the Fund and gives the committee the opportunity to understand the financial position of the Fund at the end of the financial year 2023-24. The statements in the accounts outline:
- Management commentary and the governance statement
 - The actuarial statement
 - Fund Account and Net Asset Statement at 31 March 2023
 - A number of explanatory notes and information to assist with interpretation of the financial position of the Fund.
 - Other governance documents including membership of the Fund, Statement of Investment Principles and Communications Policy Statement
 - Investment Commentary
- 2.3 It is worth highlighting that the management commentary in the Annual Report and Annual Accounts provides details of the Fund's performance over the year, some financial highlights, investment arrangements and commentary on responsible investment activities.
- 2.4 The management commentary also provides information on the investment activity undertaken. There is also a section outlining the activities of the Pension Administration team for the year 2023-24.
- 2.5 Essentially the management commentary is summarising and reporting on the activities of the Fund for 2023-24 and is consistent with reports presented to this committee over the year.
- 2.6 The audit process will commence on 1st July 2024. The purpose of the audit is to ensure the Annual Report and Accounts provide a true and fair view of the income and expenditure of the Fund and that the statements have been prepared in accordance with appropriate accounting standards and in line with the appropriate regulations. During the process any necessary audit adjustments will be made to the accounts as appropriate. Final accounts and an annual audit report are due to be presented to this Committee on 30th September 2024.
- 2.7 Good progress has been made in relation to previous audit recommendations arising from last year's audit, with actions including enhancements to procedures. This will be reported on more formally following this year's audit process.

3.0 Conclusions

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

Appendices

1. Fife Pension Fund Unaudited Annual Report and Accounts

Report Contact

Elaine Muir

Head of Finance

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Fife Pension Fund Annual Report & Accounts 2023-24

SUBMITTED FOR AUDIT 30 JUNE 2024



Fife Pension Fund Annual Report & Accounts 2023-24

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MANAGEMENT COMMENTARY

Introduction

Welcome to the Annual Report and Accounts for the 2023-24 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

The 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. This is explained in the Funding Strategy Statement that can be accessed at [Funding Strategy Statement 2024 | Fife Pension Fund](#). The health of the Fund 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 29). 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 x).

Review of the Year

Key Facts and Figures

2023-24 Key Highlights	<ul style="list-style-type: none"> • £3,659m net assets an increase of £239m compared with 2022-23 • Investment return of 7.2% for 2023-24 and 3.2% for the rolling 3 year period • The Fund continues to exceed its strategic investment return objective over the rolling 3-year period • 40,434 members an increase of 965 compared with 2022-23 • Funding level 151% at 31st March 2023 Valuation
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Table 1 Financial Highlights

Financial Highlights	2023-24 £m	2022-23 £m	Change £m
Value of Fund	3,659,202	3,420,129	239.073
Operational (Surplus)/Deficit	(239.073)	111.189	(350.262)
Employers Contributed	(86.926)	(94.726)	7.800
Employees Contributed	(25.081)	(23.270)	(1.811)
Pensions and Other Benefits Paid out	112.555	98.974	13.581
Transfer values paid in	(2.288)	(1.867)	(0.421)
Transfer values paid out	4.651	2.310	2.341
Net (additions)/withdrawals from dealings with members	2.914	(18.610)	21.524

Table 2 Investment Highlights

Investment Highlights	2023-24	2022-23
Investment Return	7.2%	-3.62%
Performance v Benchmark	-3.7%	+0.39%

The Fund has experienced a change in value of £239.073m represented by an increase in capital value of investments of £197.457m (2022-23 loss £157.042m) coupled with income from dividends and interest of £55.123m (£45.286m 2022-23). The Fund experienced a net deficit of £2.914m (2022-23 surplus £18.610m) from dealings with members. The movement is a result of exit credits which were paid to two employers who ceased participation in the scheme.

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 2023-24 are reported as £1.477m (2022-23 £2.094m), 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 2022-23 and the results were reported to Committee in June 2024. The results demonstrated that the Fund Investment Costs were slightly below other funds. Although having an aggregate higher cost implementation style, this was offset by paying less than peers for similar assets. The results also demonstrated a net 5-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 and the investment principles that the Fund adopts.

The investment of Funds is undertaken by a range of third-party investment managers. The Fund's custodian is Northern Trust who are employed to safeguarding the Fund assets.

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.

The Head of Finance receives strategic investment advisory services from the Joint Investment Forum (JIF) 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 terms of reference and construct of the JIF were revised in 2023-24 to reflect the evolving relationship between the Funds and to manage any conflicts of interest. The revised arrangements are documented in the Annual Governance statement.

A key area of work in 2023-24 was the review and update of the Investment Strategy in tandem with the Actuarial Valuation. Following the review minor changes were made to the strategy including changes to the names of Policy Groups e.g. Non-Gilt debt will now be known as Credit and LDI will be known as Sovereigns. An asset allocation has also been put in place for Cash.

The revised Investment Strategy was approved at the Pensions Committee in March 2024.

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	Previous Strategy (Sept 2022) %	Revised Strategy (March 2024) %	Permitted Range
Equities	50	50	40%-60%
Real Assets	20	20	10%-30%
Credit	15	13	5%-25%
Sovereigns	15	15	5%-25%
Cash	0	2	0%-15%
Total	100	100	

Officers at Fife and Lothian Pension Fund monitor the performance of managers with detailed performance reports presented to each quarterly meeting of the JIF and an update provided the Pension Committee.

Responsible Investment Activities

The Statement of Responsible Investment Principles (SRIP) 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.

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)	2024 Weighted Average Carbon Intensity (tons CO2/\$M sales)	Year on Year Change
Fife Equities	187	169	187	187	150	-19.4%
MSCI ACWI (Global Equities)	178	155	151	156	122	-21.5 %
Fife Equities & Corporate Bonds		164	176	169	141	-16.7%
Fife Sovereigns				132	132	0.0%

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.

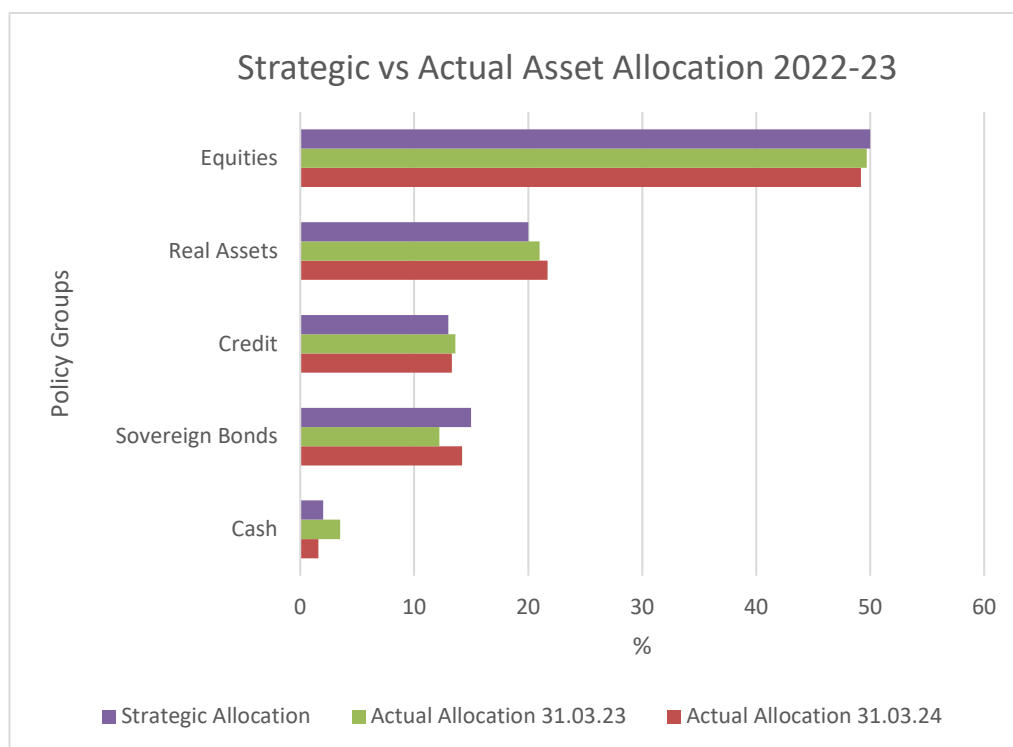
Carbon intensity numbers are treated as an output of the investment process rather than targeted inputs into the investment process. It is anticipated that global decarbonisation will reduce the average carbon intensity of investments over time.

Implementation of Investment Strategy and Investment Performance

The value of the Fund’s net assets increased to £3.659bn

The allocation for the year to 31 March 2024 summarised in the following graph where it is demonstrated that relative to asset allocation, the Fund was overweight in Real Assets, underweight in Equities and Credit, with the Cash and Sovereigns allocations also modestly underweight.

Chart 1 – Investment Allocation per policy group



Throughout 2023-24, 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 £85m from Equities, with the proceeds being invested in Sovereigns (formerly LDI) . The Fund increased Sovereigns allocation 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.

A review of policy groups and benchmarks was undertaken, with new benchmarks being introduced at Policy group levels from April 2023. Performance monitoring information was updated to include these throughout the year.

The cash balance at 31 March 2024 was £58m (1.6% 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 (%)
Equities		1,802	49.2%	50%	-0.8%
	Blackrock	509			
	Baillie Gifford	280			
	LPFI GLOVE	243			
	State Street	625			
	LPFI Global HD	145			
Other Real Assets		795	21.7%	20%	1.7%
	CBRE Property	218			
	Infrastructure (Partners, various)	577			

Credit		487	13.3%	15%	-1.7%
	Janus Henderson Corporates	87			
	Western Asset Corporates	87			
	LGIM 6A Corporate Bonds	91			
	LGIM 5YR+ US Index-linked	160			
	Private Debt	62			
Sovereign		518	14.2%	15%	-0.8%
	Janus Henderson Gilts	133			
	LPFI Gilts	385			
Cash		58	1.6%	0%	1.6%
Total Fund		3,660	100%	100%	

Source: Northern Trust

Performance of the Fund for 2023-24 resulted in a net increase in asset value of £239.073m with the Fund underperforming against its benchmark of 10.9% by -3.7% 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

Returns	1 Year (2023-24) %	3 years % per annum	5 Years % per annum	Inception % per annum*
Fund Return	7.2%	3.2%	6.6%	7.9%
Benchmark Return	10.9%	0.3%	3.8%	7.1%
Excess Return	-3.7%	2.9%	2.8%	0.8%

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.

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

- development and implementation of policies
- providing guidance to scheme employers
- engaging with the Fund members

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

The team experienced another busy and challenging year with a workplan that included preparation for the McCloud Remedy, working closely with the Fund Actuary and employers on the 2023 valuation and planning for the implementation of Pensions Dashboards.

Service Delivery Developments

During the year, three team members retired or left to take up a new employment opportunities. This necessitated a comprehensive recruitment process.

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

Training and Development

The team developed a comprehensive induction programme for 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.

External training sessions attended by team members included: -

- McCloud Remedy
- Aggregation of LGPS Membership
- Pension Dashboards
- General (single) Code of Practice
- Abolition of LTA

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>

Processes and Procedures

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

In 2023/24, the team developed processes and procedures in the following areas: -

- McCloud remedy
- Increased due diligence before paying transfers
- Benefit calculations impacted by revised GAD guidance

Fund Policies

Following the Actuarial Valuation, the Funding Strategy Statement was reviewed and updated and approved at Committee in March 2024. The Statement of Investment Principles were also updated to reflect the revised investment strategy.

An in-depth review of Compliance with the Pensioner Regulators Code of Practice highlighted two policies required updating, these being Reporting of Breaches of the Law and Internal Dispute Resolution Procedure. These were considered by Committee in June 2024.

Policies are reviewed regularly to ensure that they are kept up to date with operational practices and compliant with legislation.

Performance Standards

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

In 2023-24 a further 3 key processes were reported on a routine basis. Results of performance against KPI targets in 2023-24 are shown below: -

Table 7 Key Performance Indicators 2023-24

Membership Transactions	Target Days	Target	Within Target (average)
Correspondence	10	90%	100%
Refunds	10	100%	95%
New Members	30	100%	100%
Provide Ill Health Estimates	15	90%	36%
Provide Redundancy Estimates	12	97%	80%
Retirals	7	95%	85%
Transfer in	10	90%	20%
Transfers Out	10	90%	36%
Deaths Grants	7	90%	85%
Divorce Settlements	10	90%	65%

Performance in some areas is less than the target due to several factors including new staff, training requirements, delays in receiving paperwork and feedback while the tasks remain open in the system. Revisions have been made to the task set up and timing within the task to record the elements carried out by the team and exclude potential delays when awaiting information. This was introduced part way through 2023-24 and improvement should be seen in the coming year. Performance on all Transfers was impacted by the delay in receiving new factors from Government Actuary Department, coupled with training needs of the team. Training is underway and factors have been received therefore progress on transfers is being made towards improving performance. Performance has been reported on a quarterly basis and reviewed and discussed by the Pensions Committee and Board.

Statutory Annual Benefit Statements

The team met the statutory deadline of 31 August 2023 and issued 100% of benefit statements via Members Self-Serve (MSS). However, given not all members access MSS, during 2023 correspondence was issued advising members to register for MSS to allow them to access their annual benefit statements. This has resulted in an increase in members accessing MSS as detailed in the following table:

Table 8 : Member Self Service Statistics

Member	% @ April 2023	% @ May 2024
Active	51%	63%
Deferred	38%	51%
Pensioner	31%	35%

The promotion of MSS will continue in 2024.

Triennial Valuation

Extensive work was carried out by the Team to ensure that the valuation data submission was as accurate and up to date as possible and provided to the actuary by the scheduled deadline.

Committee reporting took place at each of the key stages of the Valuation, including reports on the Contribution Stability Mechanism and Funding Strategy Statement.

Employers were issued with provisional results and details of contributions in early 2024 and a consultation exercise took place on the Funding Strategy Statement seeking employers' views.

A full review and update of the Funding Strategy Statement was undertaken during the year to improve the layout and flow of the document.

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.

Communications

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](#). 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 to improve the site's functionality and accessibility. The Team updates the website with scheme information, guides and news articles such as the McCloud remedy.

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 on request. 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.

Working with Scheme Employers

The team liaised closely throughout the year with employers on technical, procedural and policy matters. This included strategic areas such as consultations on the Funding Strategy Statement, the actuarial valuation and contribution rates. As well as employer specific work ranging from helping with individual member cases to liaising with employers undergoing workforce change exercises and cessations processes.

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

- **McCloud Remedy - The Local Government Pension Scheme (Remedial Service) (Scotland) Regulations 2023**

These regulations which came into force on 1 October 2023 implement the McCloud Remedy and amend the underpin rules to ensure they work correctly.

Throughout the year, the Fund worked in partnership with employers to obtain data for the remedy period. By 31 March 2024, the team had received data from 12 employers. Following reconciliation of the data and rectification of any errors, the team updated the members' pension records and testing began on Altair's McCloud underpin calculations in line with SPPA's McCloud prioritisation of cases policy. Reconciliation checks began on the data received for 6 of the 8 employer payrolls managed by Fife Council.

From 5 March 2024, the team has calculated transfer requests in accordance with The Government Actuary's Department's transfer guidance on implementing the McCloud Remedy.

The team communicated the changes using communication materials provided by The Local Government Association.

The target date for notifying any current members if any estimated uplift/underpin will apply is 31 August 2025 as part of the Annual Benefit Statement.

- **Pensions Dashboards**

Pensions dashboards will allow individuals to view information about their pensions, including their State Pensions, in one place online. The deadline for public sector schemes including the LGPS to connect to the pensions dashboards is 31 October 2025.

An agreement is in place to use the digital interface supplied by the Fund's software supplier, Aquila Heywood for the Fund's connection to the dashboards. A data cleansing exercise is also underway to ensure member data is accurate and up to date. Initial training has been provided to the team and the Pensions Committee and Pension Board.

A project plan in line with the relevant Local Government Association guidance is being developed to ensure all associated work can be identified and agreed targets are in place to meet the deadline.

- **The Local Government Pension Scheme (Scotland) (Amendment) Regulations 2024**

The Local Government Pension Scheme (Scotland) Regulations previously required Funds to revalue CARE pension accounts built up from 2015 on 1 April each year. The Local Government Pension Scheme (Scotland) (Amendment) Regulations 2024, which came into effect on 28 March 2024, moved the CARE revaluation date from 1 April to 6 April aligning it with the HMRC annual allowance assessment period. This removes the impact of inflation on the annual allowance calculation. This provision was backdated to 31 March 2023 to reflect the fact that Scottish administering authorities applied revaluation on 6 April 2023, giving legal effect to annual revisions during the 2023/24 scheme year. The in-service CARE revaluation for 2023/24 was 10.1%.

Other changes introduced by these amendment regulations:

- Only the whole fund valuation will be required at each triennial valuation, with the cessation basis removed. The requirement to specify the amount of an employer's liabilities in the Rates and Adjustments certificate (on any basis) has also been removed.
- Employers proposing to exit the Scheme may request an indicative actuarial termination assessment. Administering authorities must obtain this unless the employer previously requested one within the last 12 months. The indicative assessment is calculated at a specific date. If the employer exits, the indicative assessment must, for up to 90 days from that specific date, be used instead of any assessment calculated at the exit 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 10.1% effective from 10 April 2023. The increase was set by reference to the annual change in the Consumer Price Index measured as at September 2022.

- **Pension Scams**

The Fund self-certified meeting the TPR pension scams pledge. This involves regularly warning members about pension scammers by including scam materials in annual benefit statements, transfer packs, on the website and in newsletters. When processing transfer requests, the team carries out due diligence in accordance with guidance from The Pensions Regulator and The Pension Scams Industry Group's Code of Good Practice.

- **Mortality Screening and the National Fraud Initiative**

In 2023/24, the Fund implemented Heywoods' Mortality Screening Service. This Service is used in conjunction with Audit Scotland's National Fraud Initiative (NFI) which is carried out twice a year. The Screening Service allows the team to submit more frequent checks, thereby ensuring prompt validation of potential mortality cases across the deferred and pensioner memberships helping to mitigate fraud and overpayments.

- **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.

- **Data Quality**

2023/24 also saw the implementation of Heywoods' Data Quality Tool. Following testing in our test administration site, the tool is now used in our live service. Checks on live data are carried out after i-connect runs to ensure member data accuracy, including addresses, dates of birth and National Insurance numbers. The address checks have proved particularly useful in updating deferred member records when members have not informed the team of changes of address.

The Fund uses a Data Quality Service provided by Heywood to determine the scores for our common and scheme- specific (conditional) data which are included in The Pensions Regulator Annual Scheme Returns.

The results of the data quality checks are summarised in the following table highlighting that in 2023 98.3% of records had all Common data i.e. member data that all schemes are required to hold for members, in the form of name, national insurance number, date of birth, gender and dates of pensionable service.

97.6% of the records had all Conditional data i.e. other member data required to enable pension providers to administer their scheme.

The percentages have improved since 2022.

Data Quality Measure	2021	2022	2023
Common	98.2%	97.9%	98.3%
Conditional	97.2%	97%	97.6%

The Fund is committed to continually improving the quality of the member data held to ensure that all relevant information is held.

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 Finance
- Executive Director, Finance & Corporate Services 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 2023-24

Reason for Appeal	Number	Decision
Appealing employer's refusal to grant ill health retirement	5	5 appeals pending
Appealing against level of ill health benefits	3	3 appeals pending
Appealing against decision not to pay deferred benefits early on grounds of ill health	1	Appeal Upheld

Fund Update

Membership details are shown below:-

Member Status	2023-24	2022-23
Active roles	16,163	16,015
Pensioners	15,963	15,226
Deferred role	8,308	8,228
Total	40,434	39,469

The Fund invested and administered pensions on behalf of 18 current and former employers during 2023-24. 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 x of the Annual Report and Accounts for the Funds. Two employers decided to leave the scheme in 2023-24.

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 for Custody and Performance measurement contracts and will look to work with its collaborative partners so that resources and expertise can be pooled and explore synergies and any efficiencies that may be possible.

The Administration Team will also be continuing work on the McCloud judgement.

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 introduced an enhanced suite of performance indicators which will be reviewed in the new year and refined if necessary.

The team will undertake an assessment and gap analysis of its Governance arrangements compared to the new Pensions Regulator General Code of Practice, following on from this analysis an action plan will be prepared and in place to ensure compliance with the code.

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 in one place. A saver will use the dashboard to search the records of all pension schemes to confirm whether or not they are a member. Dashboards aim to help savers plan for their retirement and as a public service scheme, the Fund will be required to connect with dashboards by 31 October 2025. This will involve preparation, cleansing of data and working with software suppliers in the coming year.

In recognition of the challenges ahead, and its commitment to strong governance arrangements, Fife Council as Administering Authority, has developed a senior officer role, reporting to the Head of Finance but with the responsibility for leading and managing the Fife Pension Fund and to deliver consistent, high quality service and raise standards in key pension fund areas. The addition of the Pension Service Manager role will ensure that the Fund is in a strong position to deal with future 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 2023-24. The production of the accounts is very much a team effort and again the unaudited accounts were completed before the 30 June deadline which is a huge achievement.

FIFE PENSION FUND ANNUAL GOVERNANCE STATEMENT

Roles and Responsibilities

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

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

Fife Council carries out its role as Administering Authority via

- The Pensions Committee
- The Fife Pension Board
- The Joint Investment Forum
- 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. The work of the PGG will now incorporate assessing and monitoring the requirements of the new Pension Regulators General (single) Code of practice including preparing a gap analysis and action plan for moving towards compliance.

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 administering 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 risk 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 2024 | Fife Pension Fund](#) and [Funding Strategy Statement 2024 | 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 (code 14), with that approach now to be applied to the new Pension Regulators General (single) Code of practice
- 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 investment 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 \(fife.gov.uk\)](#)

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

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

Pension Committee Attendance													
Date		Clr. Dempsey (convener)	Clr Pryde (vice convener)	Clr Davidson	Clr Liston (from June 23)	Clr Alexander	Clr Neal	Clr Patrick	Clr Anis-Miah(joined Oct 23)	Clr Calder (joined Feb 24)	Clr Dillion (resigned June 23)	Clr Mowatt (Resigned Oct 23)	Clr Tepp (resigned Feb 24)
23rd June 2023		✓	✓			✓	✓	✓				✓	✓
30th June 2023		✓	✓			✓	✓	✓				✓	✓
28th September 2023		✓	✓	✓	✓	✓	✓					✓	✓
14th December 2023		✓	✓	✓	✓	✓	✓	✓	✓				✓
28th March 2024		✓	✓		✓	✓				✓			
% Attended		100%	100%	40%	100%	100%	80%	60%	50%	100%	0%	100%	100%
Training in Year													
PF Training 29th May	3 hours												
PLSA Conference 8th and 9th June	15 hours												
PF Training 28th August	2 hours												
Investment Strategy Training	3 hours												
LGPS Cost Transparency Training	2 hours												
LGC Seminar 19/20 October	8 hours												
PF Training 23rd November	3 hours												
Webinar The General Code of Practice and Next Steps for the LGPS	1 hour												
Investment Strategy Training (SAA)	3 hours												
PLSA Conference 27, 28 and 29 Feb	15 hours												
PF Training 04 March	3 hours												
Other training	Various												
Total Hours in year		53	20	25	18	19	14	14	2	5	3	7	23

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](#).

In line with its constitution, Fife Pension Board has prepared and published an annual report, details can be found here (add website link once uploaded).

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

Pension Board Attendance at Committee										
Date		Cllr. Adams	Cllr Ballantyne-Wardlaw	Gail Dunn	Robert Graham	Ross Hugh	Colin Paterson	Vicki Wyse	Thomas Templeman (from Nov 23)	Ian Dawson (resigned Nov 23)
23rd June 2023		✓	✓	✓	✓			✓		✓
30th June 2023				✓	✓	✓		✓		
28th September 2023			✓	✓	✓	✓	✓			
14th December 2023		✓	✓	✓	✓	✓	✓	✓	✓	
28th March 2024		✓		✓	✓	✓	✓	✓	✓	
% Attended		60%	60%	100%	100%	80%	60%	80%	100%	33%
Training in Year										
PF Training 29th May	3 hours									
PLSA Conference 8th and 9th June	15 hours									
PF Training 28th August	2 hours									
Investment Strategy Training	3 hours									
LGPS Cost Transparency Training	2 hours									
LGC Seminar 19/20 October										
PF Training 23rd November	3 hours									
Webinar The General Code of Practice and Next Steps for the LGPS	1 hour									
Investment Strategy Training (SAA)	3 hours									
PF Board Training Governance	1.25 hours									
PLSA Conference 27, 28 and 29 Feb	15 hours									
PF Training 04 March	3 hours									
Other Training	Various									
Total Hours in year		46.25	22.25	21.25	14.25	13	19.75	16.25	16.25	3
Key										
Not Completed Mandatory Training										
Training Completed / Attended										
Training Partially Completed /Attended										
Not applicable										

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
- Ensure 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 to ensure that the Fund's governance adheres to the Pension Regulator Code of Practice No.14 checklist (and the new Code in the future), as well as reviewing the risks associated with the fund to ensure they all are controlled appropriately. As such, the group review and update the Fund's 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. A major development for the group is the introduction of the Pensions Regulator General Code of Practice which was effective from 28 March 2024. The group will be taking forward an assessment of current practices and policies against the code, preparing a gap analysis and an action plan in order to provide assurance to the Pensions Committee and Pension Board.

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 advisory services from its arms-length organisation LPFI Limited, the investment services company owned by Lothian Pension Fund. This is the fifth year of collaboration and officers have continued to participate in the Joint Investment Forum (JIF), formally known as the Joint Investment Strategy Panel (JISP)

Strategic investment advisory services are provided by LPFI Limited and, two independent Investment Advisers as members of the JIF. 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 JIF meets on a quarterly basis and there is regular dialogue with advisers of LPFI Limited and the independent advisers 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 considers advice from the JIF, including the independent advisers before assessing the risk and return and managing the implementation process.

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 intended benefits sought through the collaboration arrangement.

The Fund employs a number of investment managers who 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, making tax claims and securities lending on behalf of the fund.

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) is employed to provide expert 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 Committee meetings and participated in providing training at internal training events, as well as attending 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 help the fund achieve 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, the valuation process 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
Gresham House Forest Carbon	ISAE 3402	Reasonable Assurance	Grant Thornton UK 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
Equitix	ISAE 3402	Controls suitably designed	BDO LLP
Infracapital Greenfield partners	ISAE 3402	Reasonable Assurance	PWC LLP
Macquarie Infrastructure Debt Fund 2 LP	ISAE 3402	Controls suitably designed	PWC LLP
Adrian Infrastructure TSH Fund	ISAE 3402	Reasonable Assurance	PWC LLP
Alcentra Direct Lending	ISAE 3402	Reasonable Assurance	Deloitte
Madison MCF Senior Debt Fund	SSAE18	Reasonable Assurance	KPMG LLP
Madison MCF Sent Debt Fund IT	SSAE18	Reasonable Assurance	KPMG LLP
LPFI	Controls Letter	Reasonable Assurance	Azets
Custodian			
Northern Trust	SOC1 Report	Reasonable Assurance	KPMG LLP

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 2023-24 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 2023-24 the following assurance reviews were undertaken

- Follow up review (Cyber Security)
- Investment Governance
- Governance
- 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 2024.

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 and this has been improving compliance and progress is being made.

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 training requirement required by 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

Governance Arrangements – Areas of Improvement and Development

Several areas of improvement were identified for 2023-24 and beyond. The following sections provides details of those completed and an action plan for future developments to be taken forward.

Completed Improvements

- An in-depth review of compliance with the Pension Regulator's Code 14 was undertaken, including updating the self-assessment checklist and a critical review of evidence available to support assessment. This did result in some activities moving from full compliance to partial compliance. Where this was the case, actions have been identified and assigned to allow the fund to move towards full compliance.
- A full review and update of the Funding Strategy Statement was undertaken during the year to improve the layout and flow of the document.
- The Pensions Committee and Pension Board were provided with in-house training covering investments, governance and an introduction to the LGPS. Throughout 2023-24 training sessions have been provided covering:
 - Induction Training
 - Valuation 2023
 - Cyber Security, Cost Transparency
 - Governance in LGPS and Good Governance Review, Pension Fund Annual Report and External Audit process
 - Investment Strategy including Strategic Asset Allocation
 - Pension Dashboards
 - tPR General Code of Practice

- Cessation Amendments and New Regulations
 - PLSA Conference
 - LGC Investment Seminar
- Induction training was also carried out for new members in September, December 2023 and March 2024.
 - A Business Plan was developed and presented to Committee for 2023-24. Quarterly reporting was improved to include progress against the Business Plan. Revised KPI information was also reflected in the quarterly reports alongside progress on business-as-usual activities.
 - Controls around Cyber Security have been enhanced and regularly reviewed to ensure they remain effective, including assurances from suppliers, staff training and staff awareness.

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 complementing committee business will continue for Committee and Board members with evaluation questionnaires being used to improve and enhance the event going forward. A review of the General Code of Practice is scheduled to take place which may highlight further training requirements. Consideration will also be given to adopting a knowledge assessment process to allow identification of knowledge gaps which will also inform training requirements.	Pensions Service Manager	Ongoing
Recognising that there is only partial compliance in relation to attendance at 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.	Pensions Service Manager	December 2024
The Pension Regulator General Code of Practice came into effect from 28 March 2024. This code brings together 10 of the 15 codes of practice into one single code consisting of 51 modules across 5 sections. There are two additional areas of compliance added to the code, these being Cyber Controls and Scams. Work will be undertaken to carry out a gap analysis and assessment of Fife Pension Fund's compliance with the revised code and an action plan prepared to address any gaps. Regular updates on this work will be provided to committee as part of the quarterly reporting process.	Pensions Service Manager	December 2024
Review of the Risk Management Manual including the policy and framework. Additionally, the process for recording and reviewing risks will also be revised to ensure that the outcome of risk reviews are formally recorded in the appropriate system.	Pensions Service Manager	March 2025
There are aspects of the Administration Service Review that was carried out in conjunction with Hymans Robertson that are yet to be taken forward. 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	Pensions Team Leader	Ongoing

and increasing demand. This will be advanced following the appointment of the Pensions Service Manager		
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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 2023 to 31 March 2024 to provide reasonable and objective assurance. Any significant risks impacting on the council as administering authority and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified, and actions have and will be taken to avoid or mitigate the impact of any such risks.

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

Governance Compliance Statement

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Structure				
1.1	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Responsibility rests with the Pensions Committee, a Committee of Fife Council. The Council's List of Committee Powers sets out the Committee's remit.	Yes	
1.2	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The Committee is made up of 9 councillors from Fife Council. The establishment of the Pension Board has formalised the involvement of employers and trade unions representing the 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.		

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Representation				
2.1	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.	The Committee and Pension Board meet jointly for every Committee meeting. Chair of Pension Board also attends agenda planning meetings		
	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 meetings.	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	
Selection and Role of Lay Members				
3.1	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	All new members of the Committee are required to attend induction training, which also provides them with guidance from the Council's Democratic Services Division about their role and responsibilities. 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	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Voting				
4.1	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	The 9 councillors have equal voting rights.	Yes	
Training/Facility Time/Expenses				
5.1	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility, time and reimbursement of expenses in respect of members involved in the decision-making process.	A training policy 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 reported to and undertaken by the Committee.	Partial	Partial compliance is recorded because not all members of the Committee have complied with the policy and completed the minimum time requirement.
Meetings (frequency/quorum)				
6.1	That an administering authority's main committee or committees meet at least quarterly.	Meetings are held quarterly and additional meetings are held when necessary.	Yes	
6.2	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable – there is no secondary committee or panel.		

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
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	
Access				
7.1	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members, Board representatives and observers are treated equally in terms of access to papers, documents and advice.	Yes	
Scope				
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the committee includes all pension related matters within the terms of Local Government Pension Scheme legislation and the Pensions Regulator requirements.	Yes	
Publicity				
9.1	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	The Annual Governance Statement and Governance Compliance statement are included in the Pension Fund Annual Report and Annual Accounts. Council governance documents are available on the Council website.	Yes	

ACTUARIAL STATEMENT – PROVIDED BY HYMANS ROBERTSON

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 2024. In summary, the key funding principles are as follows:

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

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 return their portion of the Fund to full funding over 18 years if the valuation assumptions are borne out. 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 80% chance that the Fund will return to at least 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 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £3.420bn, were sufficient to meet 151% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £1.148bn.

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 2024 to 31 March 2027 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 2023 valuation report and can be accessed at [Valuation Report 2023](#)

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 2023 valuation were as follows:

Financial Assumptions	31 March 2023
Discount rate	5.5%
Salary increase assumption	2.8%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.1 years	22.9 years
Future Pensioners*	20.7 years	24.6 years

* Currently aged 45.

Copies of the 2023 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and can be accessed at [Valuation Report 2023](#) and [Funding Strategy Statement 2024](#).

Experience over the period since 31 March 2023

Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. Continued high levels of inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, asset performance has improved towards the end of 2023 and into 2024 and inflation has started to return towards historical levels and the Bank of England's target (2% pa). Overall, the funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026. The Funding Strategy Statement will also be reviewed at that time.

Greer Flanagan FFA

For and on behalf of Hymans Robertson LLP
7 May 2024

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

REMUNERATION REPORT

The Fife Pension Fund does not directly employ any staff. Therefore a remuneration report has not been included within the Annual Report.

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

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

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

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

The Administering Authority's Responsibilities

The Authority is required: -

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

Responsibilities of Executive Director Finance and Corporate Services

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

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

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

The Executive Director Finance and Corporate Services has also: -

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

I certify that the financial statements give a true and fair view of the financial position of the Fife Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2024.

Eileen Rowand
Executive Director Finance and Corporate Services

Fife Pension Fund Accounts

Fund Account

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

2022-23			2023-24
£m		Notes	£m
	Dealings with members, employers and others directly involved in the fund		
(118.346)	Contributions Receivable	6	(112.374)
(1.867)	Transfers in from other pension funds		(2.288)
(120.213)			(114.661)
98.974	Benefits Payable	7	112.555
2.629	Payments to and on Account of Leavers	8	5.020
101.603			117.575
(18.610)	Net (additions)/withdrawals from dealings with members		2.914
17.614	Management Expenses	9	10.114
(0.996)	Net (additions)/withdrawals including fund management expenses		13.027
	Returns on investments		
(45.286)	Investment Income	10	(55.123)
0.429	Taxes on income		0.479
157.042	(Profit) and losses on disposal of investments and changes in the market value of investments	11a	(197.457)
112.185	Net return on investments		(252.100)
111.189	Net (increase)/decrease in the net assets available for benefits during the year		(239.073)
3,531.319	Opening net assets of the scheme at 1 April		3,420.129
(111.189)			239.073
3,420.129	Closing net assets of the scheme at 31 March		3,659.202

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 2024.

2022-23			2023-24
£m		Notes	£m
	Investments		
3,431.715	Investment Assets	11b	3,671.144
(6.196)	Investment Liabilities	11b	(6.996)
3,425.519	Total net investments		3,664.147
	Current Assets		
0.898	Contributions due from Employers		0.935
1.940	Cash Balances		3.907
0.305	Debtors	17	0.414
3.142			5.256
	Current Liabilities		
(5.076)	Unpaid Benefits		(6.208)
(3.456)	Other Current Liabilities		(3.992)
(8.532)			(10.201)
(5.389)	Net Current Assets & Liabilities		(4.946)
3,420.129	Net Assets of the fund available to fund benefits at the end of the year		3,659.202

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 28 June 2024.

Eileen Rowand
Executive Director Finance and Corporate Services

Notes to the Fife Pension Fund Accounts for the year ended 31 March 2024

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 cannot become members as they have other national pension schemes available to them.

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 2023	31 March 2024
Number of employers	20	18
Number of employees in scheme		
Fife Council	13,951	14,174
Other employers	2,064	1,989
Total	16,015	16,163
Number of pensioners		
Fife Council	13,738	14,378
Other employers	1,488	1,585
Total	15,226	15,963
Deferred Members	8,228	8,308
Total number of members	39,469	40,434

1 Description of Fund (continued)

Changes in Membership

St Andrews Links Trust left the scheme on 31/12/2023 and Fife Housing Group left on 01/07/2023.

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"> - Annual revaluation and pensions increase in line with CPI inflation - Partners' and dependents' pensions - Ill health protection - Death in service protection 		

2 Basis of Preparation

The statement of the accounts summarises the fund's transactions for the 2023-24 financial year and its position at the year end as at 31 March 2024. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023-24 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 2023-24, (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 have 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

2022-23		2023-24
£m		£m
(23.270)	Employees' Contributions	(25.081)
	Employers' Contributions	
(94.726)	Normal contributions	(86.926)
(0.350)	Augmentation contributions	(0.367)
(95.077)	Total employers' contributions	(87.293)
(118.346)		(112.374)

By authority

2022-23		2023-24
£m		£m
(100.914)	Fife Council	(110.220)
(8.584)	Scheduled bodies	(9.071)
(8.848)	Admitted bodies	6.917
(118.346)		(112.374)

7 Benefits Payable

By Category

2022-23		2023-24
£m		£m
76.428	Pensions	86.223
19.509	Lump sum retirement benefits	23.473
3.037	Lump sum death benefits	2.859
98.974		112.555

By authority

2022-23		2023-24
£m		£m
88.277	Fife Council	100.415
4.550	Scheduled bodies	5.154
6.147	Admitted bodies	6.985
98.974		112.555

8 Payments to and on Account of Leavers

2022-23		2023-24
£m		£m
0.317	Refunds to members leaving service	0.368
0.003	State Scheme Premiums	0.001
	Transfers to other Schemes	
2.310	Individuals	4.651
2.629		5.020

9 Management Expenses

2022-23		2023-24
£m		£m
1.917	Administrative costs	2.284
15.207	Investment management expenses	7.164
0.490	Oversight and governance costs	0.665
17.614		10.114

Included in the oversight and governance costs is the external audit fee of £0.048m (£0.042m 2022-23)

9a Investment Management Expenses

2023-24	Management Fees	Performance Related Fees	Transaction Costs	Total
	£m	£m	£m	£m
Pooled Investments	0.363	0.000	0.042	0.405
Equities	1.130	0.000	0.339	1.469
Bonds	0.268	0.000	(0.101)	0.166
Pooled Property Investments	0.556	0.000	0.876	1.431
Private Equity/Infrastructure	3.393	(0.208)	0.284	3.468
Cash	0.000	0.000	0.038	0.038
	5.709	(0.208)	1.477	6.978
Custody Fees				0.187
				7.164

2022-23	Management Fees	Performance Related Fees	Transaction Costs	Total
	£m	£m	£m	£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
	12.024	0.915	2.094	15.033
Custody Fees				0.175
				15.207

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

2022-23		2023-24
£m		£m
(6.041)	Fixed interest securities	(6.961)
(12.966)	Equity dividends	(15.075)
(9.625)	Pooled property investments	(7.527)
(1.424)	Pooled investments-unit trusts and other managed funds	(0.699)
(11.908)	Private equity	(19.400)
(2.952)	Interest on cash deposits	(5.349)
(0.370)	Securities Lending	(0.111)
0.000	Broker commissions recaptured	0.000
(45.286)		(55.123)

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.

2023-24	Value at 31 March 2023	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2024
	£m	£m	£m	£m	£m
Fixed interest securities	492.364	167.931	(27.710)	(35.780)	596.805
Equities	608.309	61.927	(70.767)	61.881	661.350
Pooled Investments	1,433.521	0.918	(85.271)	133.119	1,482.287
Pooled Property Investments	199.664	14.304	(6.129)	(12.396)	195.443
Private Equity/Infrastructure	494.556	123.034	(52.231)	47.685	613.044
	3,228.414	368.114	(242.108)	194.509	3,548.929
Derivative contracts:					
Futures	(0.048)	5.002	(5.004)	0.114	0.065
Forward currency contracts	0.133	0.159	(0.466)	0.173	(0.002)
	3,228.500	373.274	(247.578)	194.796	3,548.992
Other investment balances	0.048			(0.059)	(0.064)
Cash deposits	197.784			(0.670)	115.555
Amount receivable for sales of investments	0.000			(0.000)	0.326
Investment income due	5.241			0.000	6.245
Amount receivable for pending spot FX	0.000			(0.056)	0.000
Amount payable for purchases of investments	(6.054)			0.000	(6.906)
Total Investment Assets	3,425.519			194.011	3,664.147

Trading gains and market value movements accounted for £197.457m per the Fund Account. This is different to the £194.011m reported above. The reason for this difference is £3.446m of indirect management expenses which have been included within note 9 to the accounts

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

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
	3,352.123	727.004	(683.104)	(167.609)	3,228.414
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
	3,352.045	734.921	(690.220)	(168.247)	3,228.500
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)
Total Investment Assets	3,533.827			(167.873)	3,425.519

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

11b Analysis of Investments

2022-23		2023-24
£m		£m
	Investment assets	
492.364	Bonds	596.805
608.309	Equities	661.350
	Pooled Investments	
336.559	Fixed income unit trust	338.188
1,087.226	Equity unit trust	1,134.364
209.399	Pooled property investments	205.179
494.556	Private equity/Infrastructure	613.044
	Derivative contracts:	
0.086	Futures	0.080
0.142	Forward currency contracts	0.009
197.784	Cash deposits	115.555
5.241	Investment Income due	6.245
0.000	Amounts receivable for sales	0.326
0.048	Other Investment assets	0.000
3,431.715		3,671.144
	Investment liabilities	
	Derivative contracts:	
(0.134)	Futures	(0.015)
(0.009)	Forward currency contracts	(0.010)
(6.054)	Amounts payable for purchases	(6.906)
0.000	Other Investment liabilities	(0.065)
(6.196)		(6.996)
3,425.519	Total	3,664.147

11c Investments Analysed by Fund Manager

Market Value 31 March 2023			Market Value 31 March 2024	
£m	%		£m	%
		Fund Mangers		
226.088	6.60	Baillie Gifford	279.563	7.63
222.110	6.48	Henderson Global Investors	220.944	6.03
81.205	2.37	Western Asset Management	87.033	2.38
557.521	16.28	Blackrock Investment Management (UK) Ltd	509.308	13.90
530.533	15.49	State Street Global Advisors	625.063	17.06
54.734	1.60	Partners Group	49.096	1.34
432.021	12.61	Other Infrastructure Managers	528.480	14.42
232.489	6.79	CBRE Global Investors	217.113	5.93
238.266	6.96	LPFI GLOVE	243.236	6.64
277.172	8.09	LPFI Gilts Fund	384.610	10.50
147.886	4.32	LPFI Global High Dividend	144.517	3.94
86.967	2.54	LGIM 6A Corporate Bond Fund	91.295	2.49
167.175	4.88	LGIM Over 5 Year US Index-Link	159.715	4.36
47.979	1.40	Private Debt	61.941	1.69
3,302.145	96.40		3,601.913	98.30
		Money Market Funds		
123.374	3.60	Northern Trust Money Market Fund	62.235	1.70
3,425.519	100.000		3,664.147	100.00

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

Market Value 31 March 2023			Market Value 31 March 2024	
£m	%		£m	%
556.695	16.25	Aquila Life UK Equity Index Fund, managed by Blackrock Investment Management (UK) Ltd	509.303	13.90
530.532	15.49	MPF Fundamental Index Global Equity Fund, managed by State Street Global Advisors	625.061	17.06
167.175	4.88	CG over 5Yr US Inflation-Linked managed by LGIM	0.000	0.00

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 £45.006m (31 March 2023 £69.287m). 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 £46.864m (31 March 2023 £71.880m) representing 104.1% of stock lent. Collateral consists of acceptable securities and government debt.

2022-23			2023-24
£m			£m
54.082	Bonds		40.435
15.205	Equities		4.571
69.287			45.006

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:

2023-24	Expires	Economic Exposure	Assets £m	Liabilities £m
Fixed Income Futures				
Overseas fixed interest	one year	5.304	0.040	
UK fixed interest	one year	1.599	0.040	
Overseas fixed interest	one year	(3.922)		(0.015)
		2.981	0.080	(0.015)

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

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 £m	Currency Sold	Local Value £m	Assets £m	Liabilities £m
One to six months	GBP	3.302	USD	(4.185)		(0.010)
One to six months	GBP	1.808	EUR	(2.107)	0.004	
One to six months	GBP	0.068	AUD	(0.130)	0.001	
One to six months	GBP	0.136	JPY	(24.982)	0.004	
Open forward currency contracts at 31 March 2024					0.009	(0.010)
Net forward currency contracts at 31 March 2024						(0.002)
Prior Year Comparative						
Open forward currency contracts at 31 March 2023					0.142	(0.009)
Net forward currency contracts at 31 March 2023						0.133

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 2024	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	1,926.559	973.196	764.392	3,664.147
	1,926.559	973.196	764.392	3,664.147

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
	1,908.393	872.202	644.924	3,425.519

13b Reconciliation of Fair Value Measurements within Level 3

	Market value 31 March 2023 £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 2024 £m
Overseas Property Funds	0.008					(0.000)		0.008
Overseas Venture Capital	203.536			45.901	(16.995)	18.549	0.166	251.158
UK Property Funds	150.360	0.000	0.000	14.433	(6.129)	(5.511)	(1.812)	151.341
UK Venture Capital	291.020	0.000	0.000	77.132	(35.236)	28.970	0.000	361.885
	644.924	0.000	0.000	137.466	(58.360)	42.008	(1.646)	764.392

14 Classification of Financial Instruments

31 March 2023				31 March 2024		
Fair value through profit and loss £m	Assets carried at Amortised Cost £m	Financial liabilities at amortised cost £m		Fair value through profit and loss £m	Assets carried at Amortised Cost £m	Financial liabilities at amortised cost £m
			Financial assets			
492.364			Fixed Interest Securities	596.805		
608.309			Equities	661.350		
1,423.786			Pooled Investments	1,472.551		
209.399			Pooled Property Investments	205.179		
494.556			Private Equity-Infrastructure	613.044		
0.228			Derivative contracts	0.089		
	197.784		Cash		115.555	
0.048	5.241		Other Investment balances	0.000	6.245	
	0.000		Debtors		0.326	
3,228.690	203.025	0.000		3,549.017	122.126	0.000
			Financial Liabilities			
		(0.143)	Derivative contracts			(0.026)
		0.000	Other Investment balances			(0.065)
		(6.054)	Creditors			(6.906)
0.000	0.000	(6.196)		0.000	0.000	(6.996)
3,228.690	203.025	(6.196)	Total	3,549.017	122.126	(6.996)
	3,425.519		Grand Total		3,664.147	

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 tables below 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 2024 and 31 March 2023 and the impact of a 10% increase/decrease in the value of the pound on the fund's asset classes.

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

Market Risk - currency risk 31 March 2024	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
Overseas Equities	624.818	687.300	562.337
Overseas Unit Trusts	0.000	0.000	0.000
Overseas public sector bonds (quoted)	1.006	1.106	0.905
Overseas corporate bonds (quoted)	41.214	45.336	37.093
	667.038	733.742	600.335

Market Risk - currency risk 31 March 2023	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
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
	610.908	671.999	549.817

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 2024	Duration (years)	Asset Values assumed £m	Asset Value on increase of 1% £m	Asset Value on decrease of 1% £m
Asset Type				
Fixed Interest Securities				
UK public sector (quoted)	10.52	71.963	64.319	79.607
UK corporate (quoted)	6.20	35.203	33.007	37.398
Overseas public sector (quoted)	1.53	1.006	1.000	1.011
Overseas corporate (quoted)	6.10	41.214	38.689	43.740
UK public sector index linked	10.73	447.419	410.653	484.186
Cash & cash equivalents				
Cash		115.555	117.533	113.577
Total		712.360	665.201	759.519

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
Asset Type				
Fixed Interest Securities				
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
Cash & cash equivalents				
Cash		197.784	199.762	195.806
Total		690.148	642.990	737.307

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 2024	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
Asset Class					
UK Equities	16.00	13.91	509.50	591.020	427.980
Global Equities	16.70	35.29	1,292.70	1,508.581	1,076.819
Infrastructure	13.60	5.96	218.40	248.102	188.698
Property	15.60	1.34	49.10	56.760	41.440
Corporate Bonds (short term)	3.20	0.98	35.80	36.946	34.654
Corporate Bonds (medium term)	7.00	7.55	276.70	296.069	257.331
Corporate Bonds (long term)	8.00	2.59	95.00	102.600	87.400
fixed gilts (short term)	2.00	0.19	7.10	7.242	6.958
fixed gilts (medium term)	5.80	0.78	28.50	30.153	26.847
fixed gilts (long term)	7.20	2.88	105.50	113.096	97.904
UK index linked gilts (short term)	0.00	0.00	0.00	0.000	0.000
UK index linked gilts (medium term)	7.10	0.91	33.50	35.879	31.122
UK index linked gilts (long term)	8.40	9.87	361.50	391.866	331.134
Cash	0.30	16.04	587.60	589.363	585.837
Private Debt	8.80	1.69	61.90	67.347	56.453
		100.00	3,662.800	4,075.023	3,250.577

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
Asset Class					
UK Equities	18.20	16.26	556.900	658.256	455.544
Global Equities	19.00	33.40	1,143.800	1,361.122	926.478
Infrastructure	16.00	14.22	486.800	564.688	408.912
Property	15.50	6.81	233.200	269.346	197.054
Corporate Bonds (short term)	3.60	0.64	21.800	22.585	21.015
Corporate Bonds (medium term)	7.50	8.34	285.400	306.805	263.995
Corporate Bonds (long term)	8.70	2.96	101.500	110.331	92.670
fixed gilts (short term)	2.00	0.09	3.000	3.060	2.940
fixed gilts (medium term)	6.00	1.11	37.900	40.174	35.626
fixed gilts (long term)	7.60	2.66	91.100	98.024	84.176
UK index linked gilts (short term)	0.00	0.00	0.000	0.000	0.000
UK index linked gilts (medium term)	7.20	0.79	27.100	29.051	25.149
UK index linked gilts (long term)	8.90	8.07	276.300	300.891	251.709
Cash	0.30	3.25	111.300	111.634	110.966
Absolute Return/Diversified Growth	8.90	0.00	0.000	0.000	0.000
Private Debt	9.60	1.40	48.000	52.608	43.392
		100.00	3,424.100	3,928.574	2,919.627

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 2024 was assumed to be £3.663bn. The 1 year weighted average volatility was 8.2% at 31 March 2024, meaning the 'value on increase' would be £4.075bn and the 'value on decrease' would be £3.251bn.

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 2023 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
2024-25	21.50%
2025-26	21.50%
2026-27	21.50%

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 2023, with no allowance for future unfunded benefits.

	31 March 2023	31 March 2024
	£m	£m
Present Value of Promised Retirement Benefits	2,701.000	2,955.000

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 2023	31 March 2024
	%	%
Inflation / pension increase rate	2.95	2.80
Salary Increase rate	3.45	3.30
Discount rate	4.75	4.80

Demographic assumptions

	Males	Females
Future life expectancies assumed in the calculation		
Current Pensioners	20.0	22.9
Future Pensioners	20.7	24.6

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%	49
1 year increase in member life expectancy	4%	108
0.1% increase in the Salary Increase Rate	0%	3
0.1% increase in the Pension Increase Rate (CPI)	2%	47

17 Analysis of Debtors

2022-23		2023-24
£m		£m
0.112	Central Government	0.140
0.193	Other Debtors	0.274
0.305		0.414

18 Additional Voluntary Contributions (AVC)

2022-23 Contributions	Fund Value 31 March 2023		2023-24 Contributions	Fund Value 31 March 2024
£m	£m		£m	£m
0.160	1.048	Standard Life	0.165	1.135
1.135	5.532	Prudential	1.077	6.155
0.000	0.046	Clerical Medical	0.000	0.051
1.294	6.626		1.242	7.341

19 Related Party Transactions

Fife Council, the administering authority of the fund, also provides support services for the fund and in 2023-24 charged £2.062m (2022-23 £1.775m) for those services.

Fife Council paid employers' contributions to the Pension Fund of £88.747m (2022-23 £81.180m) and collected and paid over employees's contributions of £21.473m (2022-23 £19.734m)

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:

2022-23		2023-24
£m		£m
0.307	Salary, fees & Allowances	0.359
0.307		0.359

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

2022-23		2023-24
£m		£m
0.075	In year employer's pension contributions	0.087
	Accrued Pension Benefits	
0.147	Pension	0.152
0.223	Lump Sum	0.207

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 2024 which require disclosure.

21 Contingent Assets and Liabilities

At 31 March 2024 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 (incl amendment to IFRS16 relating to Lease Liability in a Sale & Leaseback)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- International Tax Reform: Pillar Two Model Rules (Amendments to IAS 12)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

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 2024 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

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 Housing Group exited the Fund on 30 June 2023.

St Andrews Links Trust exited the Fund on 31 December 2023.

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 28 March 2024. FC is the administering authority for the Fife Pension Fund (**the Fund**).
- 1.2 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a SIP. The SIP must be reviewed from time to time and revised within six months of any material changes in the Policy.
- 1.3 In preparing this statement, the Committee has taken professional advice from the Joint Investment Strategy Panel (**JISP**), which includes external advisers and members of the Lothian Pension Fund internal investment team who are FCA authorised individuals.
- 1.4 The SIP describes the objectives, policies and principles adopted by the Committee of FC in undertaking the investment of fund monies. The SIP also discloses the extent to which the Fund comply with the six “Myners Principles” of investment practice.
- 1.5 The SIP as been devised in conjunction with the Lothian and Falkirk Pension Funds as part of the three Funds’ commitment to work collaboratively in order to achieve the efficiencies that come from scale investing.

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.
 - **Sovereigns** are bonds, which are debt instruments issued by the sovereign governments (such as the UK and US). Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some bonds provide interest payments and capital repayment value that is directly linked to price inflation (the Retail Price Index (RPI) in the UK). These are known as Index Linked Gilts and they provide the closest match to the Funds' liabilities, most of which are inflation-linked, albeit to a different measure of price inflation (the Consumer Price Index (CPI)). Some other governments (such as the US) also issue this type of debt, but in different currencies tied to price inflation in their own countries.
 - **Credit** instruments are issued by a range of non-sovereign borrowers to finance their activities in various sectors of the economy, which means that they carry varying degrees of credit risk. Income is provided through interest, which is typically paid to the lender on a regular basis until the loan capital is repaid, generally at par by the issuer at a pre-determined date. Bonds can pay a fixed, variable or inflation-linked rate of interest. Bonds are listed in the UK or overseas or are unlisted (private debt).
 - **Other Real Assets** are typically investments in a share of income and capital appreciation of tangible assets, including **property** (land and/or buildings for commercial or residential use), **infrastructure**

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

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

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

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

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 (28 March 2024)

FIFE PENSION FUND: INVESTMENT STRATEGY

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

Policy Group	Current Interim Strategy (September 2022)	Proposed Strategy	Permitted Range
Equities	50%	50%	40% - 60%
Real Assets	20%	20%	10% - 30%
Credit	15%	13%	5% - 25%
Sovereign	15%	15%	5% - 25%
Cash	0%	2%	0% - 25%
Total	100%	100%	100%

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
Equities			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%
Real Assets			18.0%
	Property	CBRE	8.3%
	Global Infrastructure	Partners Group/Various	9.6%
Non Gilt Debt			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%
LDI			8.0%
	Government Bonds	Janus Henderson	4.9%
	Government Bonds	LPFI	3.2%
Cash			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

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

For the 12 months to 31 March 2024, global equities, as measured by the MSCI ACWI index, returned 20.6% in sterling terms (source: MSCI). The bulk of those gains came in the second half of the year as slowing inflation fuelled hopes for interest rate cuts. Against that backdrop, US technology investments were notable winners, with investors showing particular enthusiasm for companies anticipated to benefit from the growth of artificial intelligence.

The year began with most major central banks tightening monetary policy in the face of inflation data that remained well above official targets. With inflation gradually receding as the year progressed, optimism grew around the potential for rate cuts. However, continuing strong economic data caused investors and policymakers to temper those expectations. The economy remained resilient despite the higher interest rate backdrop, with the UK entering a shallow technical recession but avoiding a more meaningful downturn. China, typically the largest contributor to global growth, experienced more turbulent conditions as its post-lockdown economic resurgence fizzled out, and concerns remained around its domestic real estate crisis and positioning towards Taiwan. Tragic events in the Middle East added a further source of international tension, alongside the ongoing war in Ukraine.

Government bond prices fell over the year amid rising rates, despite inflation falling from its peak. The 10-year gilt yield rose from 3.5% to 3.9% amid significant rate volatility, with yields briefly exceeding the levels (4.5%+) experienced during the UK's mini-budget crisis of 2022. The return on the FTSE Gilts All Stocks index was broadly flat for the year to March 2024, as coupon income offset the impact of higher yields. Corporate bond credit spreads (the difference in yields between bonds of differing quality) narrowed, with UK investment grade credit returning 6.1% over the year (source: Bloomberg).

Meanwhile, unlisted infrastructure valuations were resilient despite the challenging macroeconomic environment, with much of the sector benefiting from inflation-linked returns. However, higher borrowing costs have continued to weigh down commercial real estate capital values.

Over the coming year, the outlook for inflation and interest rates will likely remain a dominant theme for investment markets. While the probability of an aggressive rate cutting cycle has diminished, an easier monetary backdrop is expected but not yet assured. Longer term, debate remains around the so-called neutral rate of interest, with some suggesting that this may be higher than the exceptionally low rates experienced over the past decade. The risk of a meaningful recession appears to have diminished, though signs of weakness in consumer demand are now starting to appear. There is also the risk that a higher rate environment and lingering inflation will weigh on corporate earnings growth as well as asset valuations, which appear stretched in some areas. The upcoming US presidential election adds further scope for volatility, adding to the ongoing macroeconomic and geopolitical challenges for market participants to navigate.

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

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.

Email: Pensions.section@fife.gov.uk

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

Email: Banking.Investments@fife.gov.uk

**Fife
Pension Fund**

Administered by Fife Council



28 June 2024

Agenda Item No. 8

Pension Fund Provisional Outturn 2023-24

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to provide the committee with details of the provisional outturn of the Pension Fund for 2023-24

Recommendation(s)

The committee is asked to:-

1. Consider the provisional outturn for 2023-24
2. Note that further reports in relation to the financial position of the Fund will be brought forward on a bi-annual basis.

Resource Implications

The final position for the Fund at 31st March 2024 shows the value of the closing net assets of the Fund of £3,659.202m. The fund was in a cash flow deficit from dealings with members of £2.914m as a direct result of exit credits paid to two employers who ceased participation in the Fund. Fluctuations in market rates and movements in investment valuations have a direct impact on the pension fund and these increased by £252.100m, meaning an overall increase in the fund assets of £239.073m

Legal & Risk Implications

There are no direct legal implications arising from this report.

Impact Assessment

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

Consultation

None

1.0 Background

- 1.1 This report presents details of the provisional outturn for 2023-24 as at 31 March 2024 and provides commentary on the budget compared to the projected position for the year and an analysis of significant variances.
- 1.2 The report is intended to present the revenue account of the fund, however, it should be noted that in some items of income and expenditure are out with the control and influence of the Pension Fund. Reports outlining details of the revenue account will be presented to this Committee on a bi-annual basis in line with best practice.

2.0 Projected Outturn 2023-24

- 2.1 Appendix 1 details the provisional outturn for 2023-24. The significant assumptions made in calculating this projection are detailed below along with commentary on significant variances.
- 2.2 **Contributions received from Employers / Employees**

Contributions received are £10.283m less than budgeted. The principal reason for this variance being that exit credits of £16.128m were made to two employers who ceased participation in the Fund during 2023-24. The requirement to do so was unplanned and therefore not reflected in the budgeted figure, resulting in a variance. The balance of the variance relates to an increased level of pay award for employees compared to the budgeted level, thus increasing the contributions paid into the Fund. The budgeted figure was estimated based on the contributions received as at the end of January 2023. An estimated pay increase of 5% was reflected. The pay award was agreed in November 2023 giving an average increase of 8% for those earning less than £0.038m and 6.05% for those earning more than this amount.
- 2.3 **Additional Contributions from Employers**

These additional contributions represent the strain costs which employers pay to the fund in the event of early retirals. Costs vary year on year depending on the number of early retirals and as such is difficult to predict. The budget is based on trend analysis and the current year variance reflects the small number of early retirements in 2023-24 compared with previous trends.
- 2.4 **Pension Payments**

Pension payments were £1.723m higher than budget. The budgeted figure was estimated based on the payments made as at the end of January 2023, an estimated increase of 10.1% was reflected. Payments vary from month to month and have been increasing slightly resulting in the higher than anticipated actual.
- 2.5 **Transfers to and from other Schemes**

The budget for transfers into and out of other schemes are based on the average value of transfers over the past 5 years. Owing to the nature of this type of income the projection is set at budget level as its difficult to predict the transfers in that will take place.
- 2.6 **Pension Lump Sum Benefits**

Lump sum benefits are unpredictable and therefore difficult to budget for as these are dependent on employee choice. Employees may choose to commute part of

their annual pension. The budget is based on an average of the past few years and actual benefits paid in 2023-24 have been greater than this average resulting in the variance of £5.991m.

2.7 **Administrative Costs**

The Support Service costs are reporting an adverse variance compared to the budget for 2023-24 because the level of pay award reflected in the budget was less than the actual level. Further, the percentage allocation of time for members of the Finance team has been updated to reflect actual time spent on working on the Pension Fund.

Interest paid on benefits is also greater than anticipated due to an increase in the interest rate used compared to budget and an increase in the value of the benefits that received interest.

2.8 **Investment Management Expenses**

These costs have been subdivided into 4 parts: -

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

Management Fees – these fees are calculated based on the value of the fund in each portfolio at the end of each quarter. As the performance of the market is impossible to predict accurately, the budget for these fees is based on the previous year's outturn position. There is an underspend of £2.941m which reflects fund value and the continued implementation of the investment strategy.

Performance Related Fees – not all fund managers are subject to performance related fees. Currently only 3 managers are in this category; Again, it is impossible to predict market positions with any accuracy with the budget being based on the previous year's outturn. The position for 2023-24 shows an underspend of £1.088m which reflects market performance in year.

Custody Fees – custody fees represent the amount paid to The Northern Trust Company as the Fund's global custodian. There is an overspend of £0.077m for 2023-24.

Transaction Costs – these costs vary from portfolio to portfolio depending on the type of investments managed. Again, these budgets are set using the outturn previous year's outturn position. For 2023-24 there is an underspend of £2.863m.

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 **Net Returns on Investment**

This heading represents the profit and losses on disposal of investment and changes in the market value of investments. This is dependent largely on the performance of financial markets and it is impossible to predict accurately. For 2023-24 the return was an increase of £252.100m.

3.0 Conclusions

- 3.1 The provisional outturn for 2023-24 indicates a net decrease to the fund of £2.914m from the dealings with members and a net increase on investments of £252.100m, resulting in a projected net decrease in the value of the Fund of £239.073m.
- 3.2 The net decrease to the fund from the dealings with members is the result of 2 exit credits made to employers who left the Fund.

List of Appendices

1. Appendix 1 – 2023-24 Provisional 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

Laura Robertson
Finance Operations Manager
Fife House
Telephone: 03451 55 55 55 Ext No 450552
Email – laurac.robertson@fife.gov.uk

Fife Pension Fund
2023-24 Provisional Outturn

	Note	Budget	Provisional Outturn	Variance	Variance
		£m	£m	£m	%
Dealings with members, employers and others directly involved in the fund					
Contributions Received		(122.290)	(112.007)	10.283	-8.41%
Additional Contributions from Employers		(2.810)	(0.367)	2.443	-86.95%
Transfers from Other Schemes		(2.660)	(2.288)	0.372	-13.99%
		(127.760)	(114.661)	13.099	-10.25%
Pension Payments		84.500	86.223	1.723	2.04%
Lump Sum Benefits		20.340	26.331	5.991	29.46%
Refund of Contributions		0.230	0.368	0.138	60.00%
State Premium Schemes		0.010	0.001	(0.009)	-87.54%
Transfers to Other Schemes		4.460	4.651	0.191	4.29%
		109.540	117.575	8.035	7.34%
Net (additions)/withdrawals from dealings with members		(18.220)	2.914	21.134	-115.99%
Administrative Costs:-					
Support Service Costs		1.710	2.062	0.352	20.57%
Interest Paid on Benefits		0.020	0.172	0.152	760.52%
Income Tax on Contributions and Benefits		0.110	0.042	(0.068)	0.00%
Other Administrative Costs		0.010	0.009	(0.001)	-10.62%
Oversight and Governance Costs:-					
Actuarial Fees		0.200	0.203	0.003	1.25%
External Audit Fees		0.040	0.050	0.010	25.51%
Hermes Equity Ownership Services		0.090	0.089	(0.001)	-1.23%
Investment Consultant Fees		0.260	0.241	(0.019)	-7.15%
Other Oversight and Governance Costs		0.080	0.082	0.002	2.58%
Investment Management Expenses:-					
Management Fees		8.650	5.709	(2.941)	-34.00%
Performance Related Fees		0.880	(0.208)	(1.088)	-123.66%
Custody Fees		0.110	0.187	0.077	69.56%
Transaction Costs		4.340	1.477	(2.863)	-65.97%
Net (additions)/withdrawals including fund management expenses from dealing with members		(1.720)	13.027	14.747	-857.41%
Returns on investments					
Investment Income		(26.090)	(55.123)	(29.033)	111.28%
Taxes on income		0.230	0.479	0.249	108.39%
Profit and losses on disposal of investments and changes in the market value of investments	1	(127.100)	(197.457)	(70.357)	55.36%
Net return on investments		(152.960)	(252.100)	(99.140)	64.81%
Net (increase)/decrease in the net assets available for benefits during the year		(154.680)	(239.073)	(84.393)	54.56%
Opening net assets of the scheme at 1 April 2023		(3,420.129)	(3,420.129)		
Net (increase)/decrease in the Fund		(154.680)	(239.073)	(84.393)	
Projected Closing net assets of the scheme at 31 March 2024		(3,574.809)	(3,659.202)	(84.393)	

Note 1

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

	£m
Profit or Loss on the disposal of investments	(73.264)
Changes in Market Value	(124.193)
	<u>(197.457)</u>

28 June 2024

Agenda Item No. 9

Fife Pension Fund – Business Plan update to 31st March 2024

Report by: Elaine Muir, Head of Finance

Wards Affected: N/A

Purpose

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

Recommendation(s)

The Committee is asked to:

- (1) Consider and comment on the key Business Plan activities.
- (2) Note the range of additional 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

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 in order to provide sustainable and effective performance.

Legal & Risk Implications

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

Impact Assessment

Not relevant.

Consultation

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

1.0 Background

- 1.1 The Fife Pension Fund – Business Plan 2023-24 was approved by this Committee in March 2023. The business plan contained details of development activities that were planned for 2023-24, as well as a high-level summary of the activities to be undertaken each quarter.
- 1.2 Key Performance Indicators (KPIs) relating to the pension administration function are collated within Altair, the pension administration software. KPIs are reported quarterly to the management team and to Committee.
- 1.3 The report is designed to provide formal reporting of administration performance to the management team and the Committee.

2.0 Business Plan Activity

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

2.2 *Development Activities*

The areas of development identified were as follows:

2.2.1 Procurement - Custody Services

Progress to date

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

2.2.2 McCloud Judgement

Progress to date

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

The remaining 8 employers are managed by Fife Council's payroll team, and meetings with Fife Council's payroll team continue to take place to ensure progress

is being made. Information has been provided by Fife Council with the part time and breaks information required for seven of the eight payrolls managed by them (all bureau payrolls) and the information has been uploaded to Altair. Fife Council, the biggest employer, is the only payroll for whom information remains outstanding. Spreadsheets have been provided to the Council that specify the members in scope for the McCloud project. Due to the number of members involved who have multiple posts, and the change of payroll systems mid-way through the McCloud rectification period, sourcing the data for the members in scope for McCloud is complex.

Alongside the collation of data, the team continue to meet with Heywoods consultants that specialise in updating Altair with McCloud information. These meetings assist the team in understanding mismatches that aren't specifically highlighted in the McCloud user guides. Further, participation in nationwide working groups is also taking place. These meetings are particularly helpful as they allow sharing of best practice and experiences of other Funds updating McCloud information.

2.2.3 Pensions Dashboards

Progress to date

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

A draft LGPS Pensions Dashboard connection guide has been published by the Local Government Association. Work has started to develop a project plan based on this guidance. A draft project plan will be in place by the end of July 2024.

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

2.2.4 Taskforce for Climate Related Financial Disclosures (TCFD)

Progress to date

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

TCFD reporting is still in its infancy and there is more for the Fife Fund to do in this area. It continues to be a medium-term ambition within the business plan.

2.2.5 KPI review

Progress to date

The approved additional KPIs and revised targets are reflected in this report. Now that a full year's performance information compared to targets is available the targets

will be reviewed, and any revisions brought back to the next committee for consideration. Development work is continuing on the presentation and process for collating KPIs with the testing of the use of Power BI dashboards currently taking place. It is intended that Power BI dashboards will be used for 2024-25 onwards. The dashboards are currently being tested in terms of accessibility and the format that will be used for Committee reporting.

2.2.6 Continuous Improvement of Processes

Progress to date

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

- Roll out of i-connect to Employers – complete except for three employers each with less than 10 members.
- Roll out of Members Self-Serve (MSS) to all pensioner members – continuing - focus has been on promotion to active members. This will continue and will be carried forward to next year's business plan.
- Transfer-in criteria – work is ongoing, researching and consulting on the approach to transfers-in. The research has identified that there is a current court case being heard in relation to transfers-in. This work is being deferred until after the findings of that case.
- Transfer-out processes- work is ongoing, which includes reviewing the relevant guidance and regulations as well as consulting with legal advisers. Process maps and checklists have been developed and are currently being tested.
- Decision making process regarding death grants – this is complete and now Documented within the team procedures library. Predominately decisions are made based on the "Expression of Wish" form completed by the member. However, in situations where no Expression of Wish form has been completed, legal advice is sought and the decision making is escalated as appropriate.
- Review of Governance Documentation – ongoing and reflected in the action plan on Corporate Governance. Two policies were still to be reviewed, these being Breaches of the Law and Internal Dispute Resolution Procedure. These reviews are subject to a separate report on this agenda.

2.3 The Pensions Regulator General Code of Practice

2.3.1 The Pensions Regulator's (tPR) General Code of Practice came into force on 28 March 2024 bringing together 10 of the 15 previous codes into one place and covers all the governance, administration conduct and practices of an LGPS fund. The code is categorised into 5 areas:

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

- 2.3.2 Within the 5 areas there are 51 specific modules that apply to running a pension scheme. Not all modules are directly applicable to the LGPS, however, there are some that contain elements of best practice which will also be considered.
- 2.3.3 There are two new modules on Cyber Controls and Pension Scams.
- 2.3.4 In preparation for the publication of the general code, work has been ongoing on compliance with the existing code. An action plan to address the partial compliance with the previous Pension Regulators Compliance Checklist was developed and tasks allocated to individuals to ensure there is a move from partial to full compliance.
- 2.3.5 Building on this work an assessment of the requirements of the new code and a gap analysis will be undertaken. The current action plan will be updated to address the actions required to achieve full compliance with the new code. To assist in this process, the General Code of Practice checker tool has been purchased from Hymans.
- 2.3.6 This tool will allow an assessment, and gap analysis to be undertaken and prepare an action plan within a 6-to-9-month period. This will be taken forward by the Pensions Governance Group and updates provided to the Committee.

2.4 Committee and Board Training Attendance

- 2.4.1 An integral part of the governance arrangements and compliance with the code of practice is the adoption of the fund's approved training policy. The policy requires all members of both the committee and board to undertake 14 hours of training per annum.
- 2.4.2 Members of the Committee and Board are asked to submit details of attendance to Legal and Democratic Services. Attendance at events for 2023/24 year to date is summarised in the following tables:

Pension Committee Attendance at Training													
		Clr. Dempsey (convener)	Clr Pryde (vice convener)	Clr Davidson	Clr Liston (from June 23)	Clr Alexander	Clr Neal	Clr Patrick	Clr Anis-Miah (joined Oct 23)	Clr Calder (joined Feb 24)	Clr Dillion (resigned June 23)	Clr Mowatt (Resigned Oct 23)	Clr Tepp (resigned Feb 24)
Induction Training	2 hours												
TPR Toolkit	5 hours												
TPR Scams	1 hour												
Additional Training in Year													
PF Training 29th May	3 hours												
PLSA Conference 8th and 9th June	15 hours												
PF Training 28th August	2 hours												
Investment Strategy Training	3 hours												
LGPS Cost Transparency Training	2 hours												
LGC Seminar 19/20 October	8 hours												
PF Training 23rd November	3 hours												
Webinar The General Code of Practice and Next Steps for the LGPS	1 hour												
Investment Strategy Training (SAA)	3 hours												
PLSA Conference 27, 28 and 29 Feb	15 hours												
PF Training 04 March	3 hours												
Other training	Various												
Total Hours in year		53	20	25	18	19	14	14	2	5	3	7	23

Pension Board Attendance at Training										
		Cllr. Adams	Cllr Ballantyne-Wardlaw	Gail Dunn	Robert Graham	Ross Hugh	Colin Paterson	Vicki Wyse	Thomas Templeman (from Nov 23)	Ian Dawson (resigned Nov 23)
Induction Training	2 hours									
TPR Toolkit	5 hours									
TPR Scams	1 hour									
Additional Training in Year										
PF Training 29th May	3 hours									
PLSA Conference 8th and 9th June	15 hours									
PF Training 28th August	2 hours									
Investment Strategy Training	3 hours									
LGPS Cost Transparency Training	2 hours									
LGC Seminar 19/20 October										
PF Training 23rd November	3 hours									
Webinar The General Code of Practice and Next Steps for the LGPS	1 hour									
Investment Strategy Training (SAA)	3 hours									
PF Board Training Governance	1.25 hours									
PLSA Conference 27, 28 and 29 Feb	15 hours									
PF Training 04 March	3 hours									
Other Training	Various									
Total Hours in year		46.25	22.25	21.25	14.25	13	19.75	16.25	16.25	3
Key										
Not Completed Mandatory Training										
Training Completed / Attended										
Training Partially Completed /Attended										
Not applicable										

2.4.3 Training available in the quarter included:

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

2.4.4 Members are asked to review this for accuracy and provide an update as this will be reported in the Annual Governance statement. Full details of the training and development are subject to a separate report on this agenda.

3.0 Business as Usual Activity

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

3.2 **Business as usual**

- 3.2.1 In the quarter January to March, the annual Pension Increase Award (6.70% applicable from 8 April 2024) was run in both the Test and Live environments in Altair. The resultant queries were resolved, and the system updated prior to April payroll being run. The new rates for pensioner / dependant pension payments were implemented and are now (from 8 April) in payment.
- 3.2.2 The background factor tables, required for all system calculations, have been updated in both Altair Live and Test environments for the financial year 2024/25.
- 3.2.3 Work is on-going to update existing procedures as well as working on, and implementing, new procedures to ensure all administration tasks are considered. In-house training continues to ensure the procedures are adequate, pertinent, and easy to follow. The procedures are catalogued and available for access by all team members.
- 3.2.4 Following testing, the Data Cleansing tool (provided by the software suppliers Heywoods), is now being used. The tool allows regular checks on live data to ensure member data accuracy with addresses, dates of birth, national insurance numbers etc. This is of particular use with deferred members. These members are more likely to change address but fail to notify us. This has already helped us cut down on the amount of “gone away” enquiries.
- 3.2.5 The team recently subscribed to the Mortality Checking tool. This tool is used in the Live service in conjunction with the National Fraud Initiative (NFI). Twice a year Internal Audit provide information for the NFI, however, by also using the Mortality Checking Tool, which can be run at any time, the team get earlier notification of any pensioner/dependant/deferred member deaths that have not appeared on the Tell Us Once system. This will help prevent potential overpayment of pensions.
- 3.2.6 Two members of staff left the team in this quarter, one retired and one left the organisation. This has resulted in another recruitment exercise in this quarter and ended in the successful recruitment of two new members of staff, one a support assistant in the pension payroll team, the other a support assistant in the administration team, both with a start date of 7 May 2024.
- 3.2.7 To help deal with work pressures, a re-organisation of the team has taken place. Until finalised, one of the Lead Officers is now working on the McCloud project on a full-time basis. A temporary support assistant, who also started on 7th May, was also recruited to assist with McCloud. This means the team is fully staffed with additional resources working on McCloud.
- 3.2.8 Also in this quarter, the cessation payments for the two employers who have recently left the fund have been made.

3.3 **Staff Training and Development**

- 3.3.1 Following internal promotions, additional in-house training has been required to ensure the team members are trained on their new duties. Processes and procedures continue to be developed and processes and procedures are being updated to ensure knowledge and understanding within the team continues to grow.

3.4 Customer Contact

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

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

3.4.2 New and existing members continue signing up to Member Self Service (MSS). From April 2023 to May 2024, the following changes to the registration totals have been achieved:

Member	% @ April 2023	% @ May 2024
Active	51%	63%
Deferred	38%	51%
Pensioner	31%	35%

For those members who have not yet registered, more mail shots to home addresses will be sent. In the mail shot, as well as providing registration instructions, the benefits of being registered for MSS will also be highlighted.

The focus will be on the different categories, starting with deferred members in early June, moving onto current scheme members in July and ending with pensioner/dependent members later in the year.

4.0 Key Performance Indicators

4.1 KPI 1 - Key Processes - Quarter 4

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 January 2024 to 31 March 2024, and a comparator for the for the same quarter last year are detailed as Appendix A.

4.1.3 Performance for the fourth quarter shows an improvement from same quarter of last year in 5 of the 10 measures reported, whilst a further 2 are the same as the previous year at 100%. However, the remaining processes fall short of the target completion within the agreed days, explanations are provided in the following paragraphs.

4.1.4 There were a total of 449 New Member records dealt with in this quarter, all of which were processed within the target time.

4.1.5 In the quarter, 231 refunds of contributions were processed. Five cases ran over target, two of them due to delays in receiving the payroll information with the other three being delayed at the checking stage of the process. All five have now been paid.

- 4.1.6 The performance of processing ill health retirals shows a marked improvement from the same quarter of the previous year. Recent changes to the sourcing of information, as well as changes made to the task set-up, would appear to be working.
- 4.1.7 The Team received and calculated eight redundancy retirement estimates, all within the target times set in the task management process. The delay was caused by delays by the employer requesting release of the estimates to the members. This meant that the tasks were still outstanding in Altair and caused the tasks to run over the target time.
- 4.1.8 The performance for Retirals is consistent with the same quarter for last year. A total of 289 Retirements have been processed in the quarter, and whilst slightly under target, 260 of these tasks were processed within the target time. Of the remaining 29 tasks, 18 of these cases were due to the time taken by the member returning their completed paperwork. The other 11 ran over target time due to a delay in the calculations being checked.
- 4.1.9 Performance on dealing with Transfers In remains below the target, training of team members in dealing with transfer is required and is on-going. Other factors impacting on transfers-in performance is the requirement to perform additional calculations for those members who are in-scope for McCloud. The target for transfers in needs reviewed and updated accordingly.
- 4.2.0 The same applies Transfers Out. While there has been a slight improvement in performance, In-House training is on-going.
- 4.2.1 Our performance with Correspondence remains consistently high with the average response time being four days.
- 4.2.2 Our performance in dealing with Deaths has dropped slightly from the previous quarter. Although 131 Deaths were processed, delays in receiving paperwork from next of kin is the common reason for tasks running over target time, procedures are in place to follow up requirements for paperwork where appropriate.

4.3 KPI 2 - Total Days Elapsed

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

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

4.4 KPI 3 – Casework Ongoing

- 4.4.1 This table provides a breakdown of the total caseload for each of the 10 key processes over an annual rolling year. The table illustrates the volume of cases being dealt with by the Team and assessment of processes completed and those that remain outstanding.

5.0 Conclusions

5.1 This report provides members with monitoring information on the Pension Administration Team's performance and service delivery to employers and members of the Fund in the quarter to March 2024.

List of Appendices

Appendix A

KPI 1 – Key Processes

KPI 2 – Total Days Elapsed

KPI 3 – Casework Ongoing

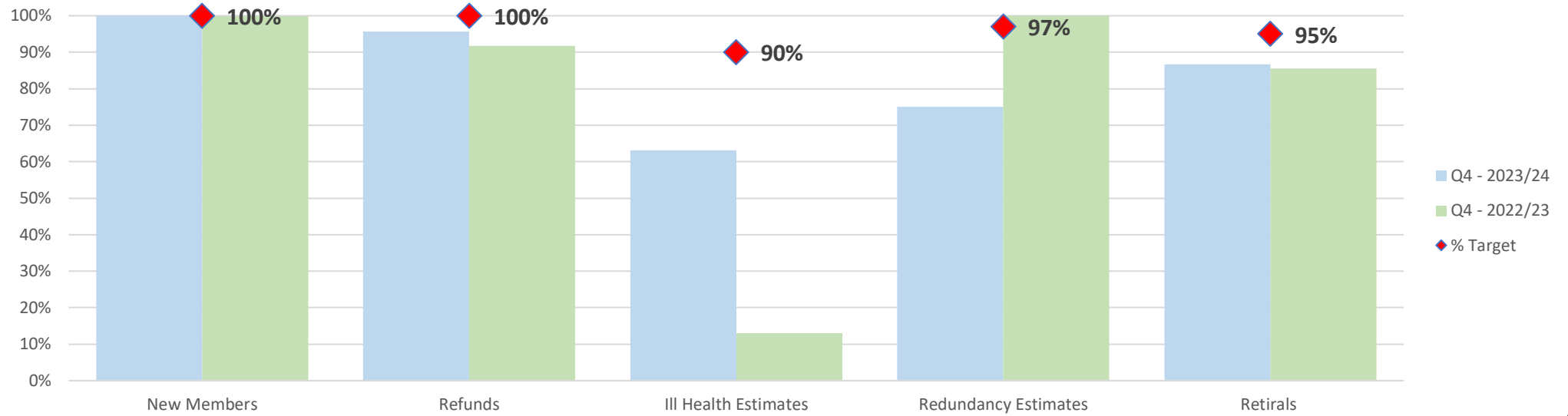
Report Contact

John Mackie
Administration Team Manager,
Fife Council,
Fife House,
North Street,
Glenrothes,
Fife, KY7 5LT

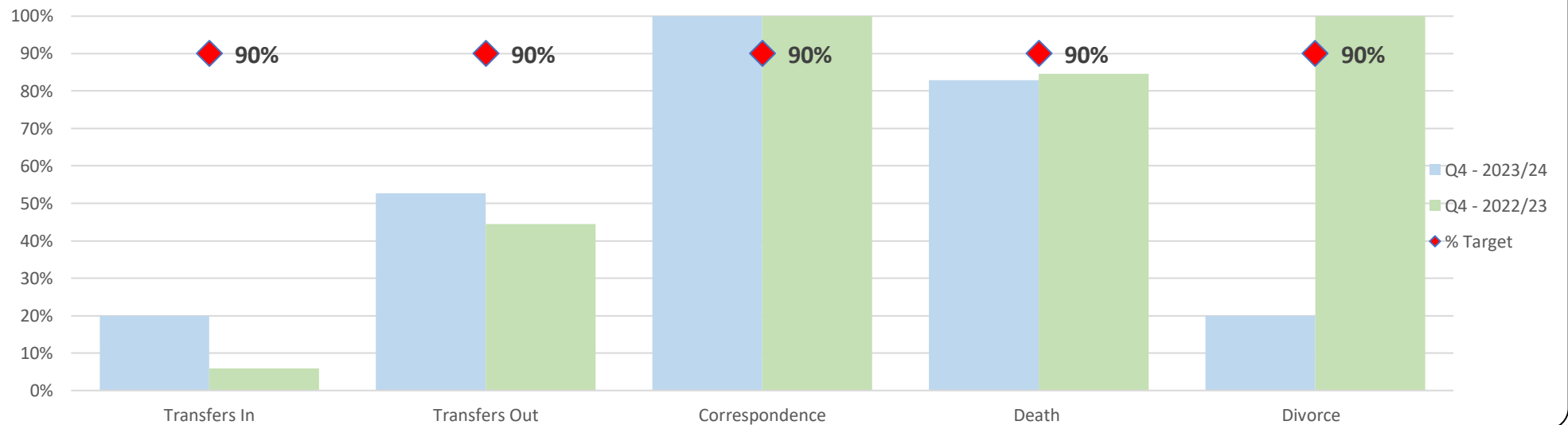
Email – john.mackie@fife.gov.uk

KPI 1: Key Processes

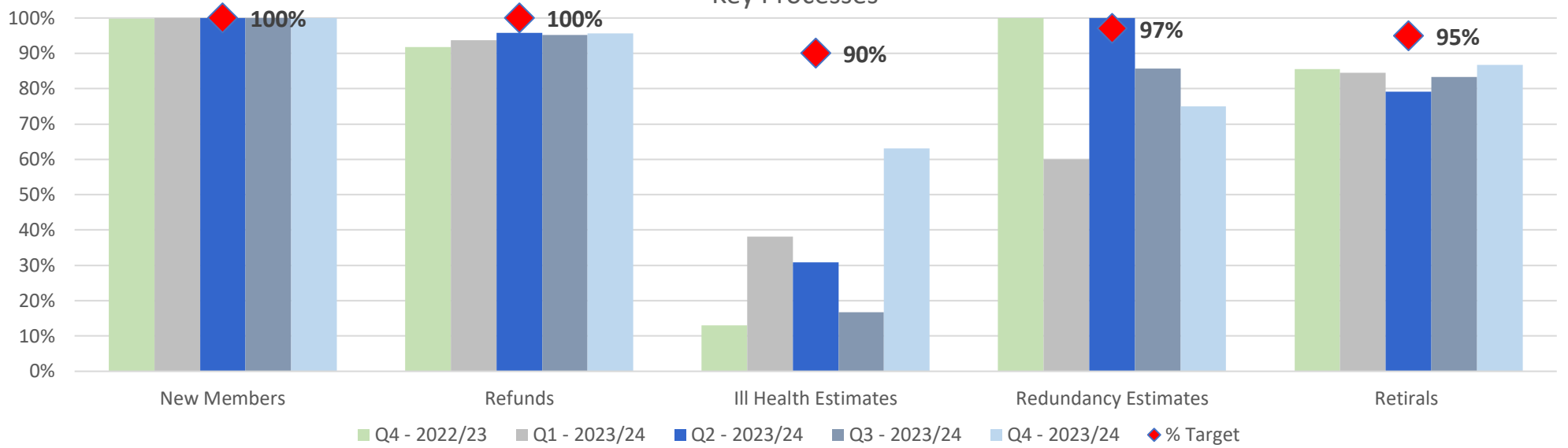
Key Processes



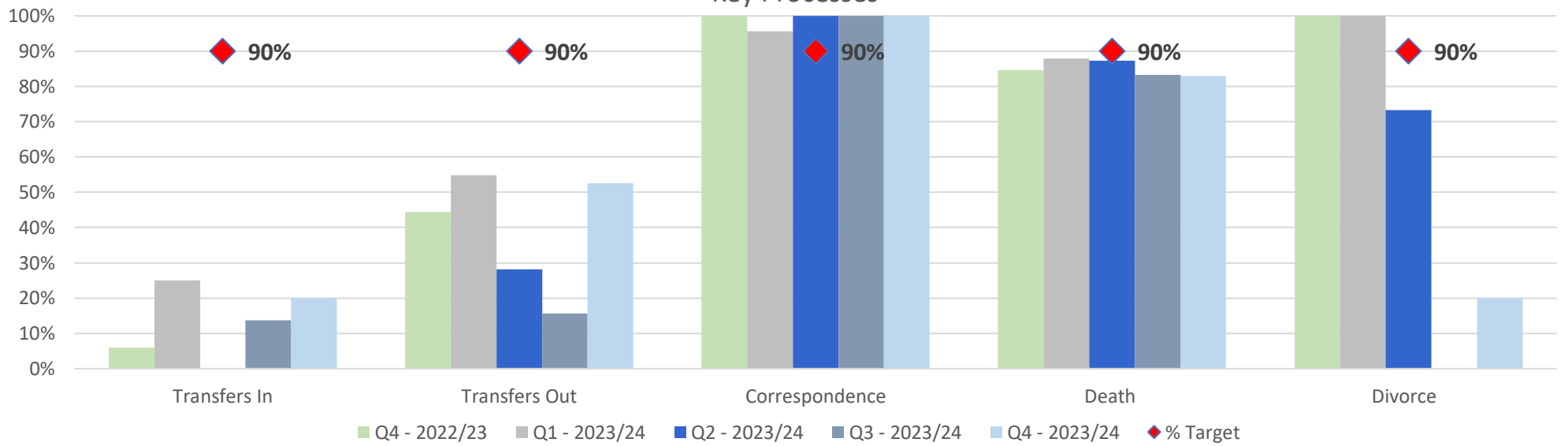
Key Processes



Key Processes

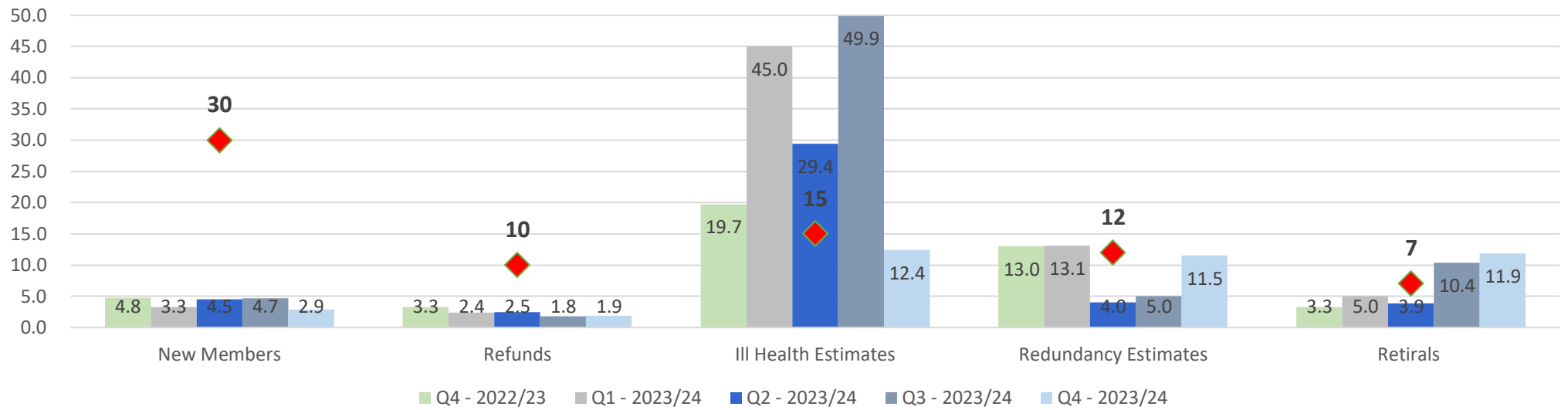


Key Processes

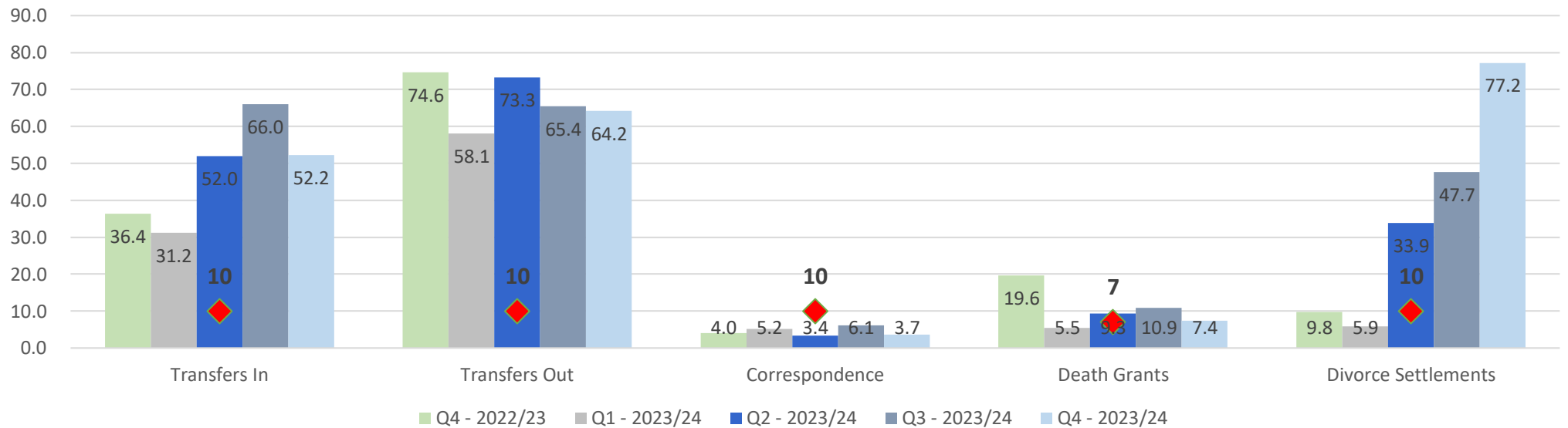


KPI 2: Working Days Elapsed

Totals Days Elapsed



Totals Days Elapsed



KPI 3: Casework Ongoing

Ongoing Casework at End of Reporting Quarter	Q4 2022/23				Q1 2023/24				Q2 2023/24				Q3 2023/24				Q4 2023/24			
Key Process	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Completed	Received	Outstanding	Brought Forward	Completed	Received	Outstanding	Brought Forward	Completed	Received	Outstanding
New Members	23	562	584	1	1	657	629	29	29	844	830	15	15	584	611	42	42	449	407	0
Refunds	30	255	271	14	14	211	180	45	45	371	397	71	71	285	271	57	55	214	176	17
Ill Health Estimates	13	24	25	12	12	15	23	4	4	13	18	9	9	20	19	8	7	19	18	6
Redundancy Estimates	0	3	1	2	2	3	5	0	0	6	6	0	0	7	7	0	0	5	8	3
Retirals	262	231	197	293	293	245	216	322	322	238	235	319	319	242	202	279	279	289	188	178
Transfers In	28	28	23	33	33	28	6	55	55	2	33	86	84	25	37	96	93	20	21	94
Transfers Out	48	47	35	57	57	36	41	52	52	42	56	66	64	47	32	49	50	22	35	63
Correspondence	1	20	19	2	2	24	24	2	2	27	27	2	2	26	26	2	2	22	24	4
Death Grants	75	188	215	48	48	143	143	48	48	116	129	61	61	140	146	67	67	131	143	79
Divorce Settlements	3	19	18	4	4	13	6	11	11	19	17	9	9	10	13	12	12	16	12	8

28 June 2024

Agenda Item No. 10

Fife Pension Fund – Whistleblowing Reporting Breaches of the Law and Internal Dispute Resolution Procedure

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

This report provides updated policy documents in respect of the Whistleblowing – Reporting Breaches of the Law Policy and Internal Dispute Resolution Procedures. These documents are intended to replace the previous policies agreed by the Committee.

Recommendation(s)

It is recommended that the Committee consider and approve the revised policies.

Resource Implications

There are no direct resource implications identified at this stage.

Legal & Risk Implications

Provision for the preparation for Whistleblowing – Reporting Breaches of the Law Policy and Internal Distribution Resolution Procedures is included in the Pensions Regulators (tPR's) General Code of Practice. There is a risk that not having these policies will mean non-compliance with the code as well as a lack of documented governance on these matters. Further, there is a risk that members and employers will have no awareness of the actions taken by the Fund on these matters.

Impact Assessment

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

Consultation

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

1.0 Background

- 1.1 During an internal audit of governance arrangements and compliance with the then Code 14 of the Pensions Regulator's code of practice, it was noted that some of the governance documents were not reviewed on a timely basis and required to be reviewed and updated.
- 1.2 Over the last 18 months a review of all governance documents associated with Fife Pension Fund has taken place and updated policy and strategy documents such as the Administration Strategy, Communication Policy, Funding Strategy Statement and Business Plan have been brought forward to Committee for approval.
- 1.3 The Pensions Governance Group have undertaken an in-depth review of the Governance Compliance Checklist which was reported to Committee in September 2023. This review highlighted some areas of partial compliance. These areas of partial compliance included both Breaches of the Law Policy and the Internal Dispute Resolution Procedure.
- 1.4 In order to address this partial compliance and in preparation for the General Code of Practice, a review of both the policy documents has been undertaken. The policy documents have been reviewed in line with the General Code of Practice and are attached as Appendices 1 and 2.
- 1.5 The IDR Policy document has been updated to reflect the changes to the panel i.e. replacing the Head of Revenue & Commercial Services. Other minor changes to the content have been made as well as cosmetic changes.

The Breaches of the Law policy document has been renamed in line with the Regulator's General Code of Practice and is now 'Whistleblowing – Reporting Breaches of the Law'. The document has been updated to reflect the introduction of the General Code of practice and, as well as cosmetic changes, content has been updated removing reference to the Decision Tree replacing this with tPR's new guidance.

- 1.6 The policies will be reviewed by officers on an annual basis and brought back to Committee for approval should there be material changes.

2.0 Conclusion

- 2.1 The Whistleblowing – Reporting Breaches of the Law Policy and Internal Dispute Resolution procedure have been revised and updated.

List of Appendices

Appendix 1 – Fife Pension Fund – Draft Whistleblowing – Reporting Breaches of the Law Policy

Appendix 2 - Fife Pension Fund – Draft Internal Dispute Resolution Procedure

Background Papers

None

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Whistleblowing – Reporting Breaches of the Law Policy

Whistleblowing – Reporting Breaches of the Law Policy

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Introduction

This policy has been prepared on behalf of Fife Council, as the administering authority for the Fife Pension Fund (the Fund). The policy sets out the arrangements for identifying, managing and reporting breaches of the law, as covered in the Pensions Regulator (tPR) General Code of Practice.

The policy identifies the responsibilities of officers of Fife Council, the Pension Committee and the Fife Pension Board in identifying, managing and where necessary reporting breaches of the law as they apply to the management and administration of the Fund.

Breaches can occur in relation to a variety of tasks associated with the administrative function of a pension scheme, for example record keeping; internal controls; calculation and payment of benefits and investment related decisions.

This policy will be reviewed annually, or more regularly if deemed appropriate by the fund's officers. Fund officers will monitor all breaches and will ensure that adequate resources are allocated to managing and administering this process.

The Council's Executive Director, Finance and Corporate Services, will be the Monitoring Officer responsible for the management and execution of this policy.

Overview

Identifying and assessing a breach of law is important in reducing risk and providing an opportunity to review and improve processes in areas where the breach occurred. Furthermore, failure to report a material breach without 'reasonable excuse' is a civil offence that can result in civil penalties.

The Fund will maintain a log of all breaches relating to the management and administration of the Fund.

Where a breach has occurred, it should be identified as either an area of non-compliance under the LGPS regulations or a breach under Pension Law as defined within the Pensions Act 2004 and the Pensions Regulator's General Code of Practice.

What is a breach of the law?

A breach of the law is 'an act of breaking or failing to observe a law, agreement or code of conduct'. It can cover many aspects of the management and administration of the LGPS, including failure:

- to carry out the requirements of the LGPS regulations, overriding legislation, statutory guidance and codes of practice.
- to maintain accurate records.
- to act on any fraudulent act or omission of an employer to pay contributions to the Fund on time.
- to pay benefits accurately or in a timely manner.
- to issue annual benefit statements or non-compliance with the Regulator's General Code of Practice.

The Code states broadly, our interpretation covers anything that could affect members' benefits, or members and others' ability to access the information they are entitled to.

The definition of Pension Law under the jurisdiction of the Pensions Regulator is any enactment contained in or made by virtue of:

- the Pension Schemes Act 1993.
- the Pensions Act 1995.
- the Welfare Reform and Pensions Act 1999.

- the Pensions Act 2004.
- the Public Service Pensions Act 2013.
- the Pensions Act 2014.
- the Pensions Schemes Acts
- Public Service Pensions and Judicial Offices Act 2022.

Responsibilities in relation to breaches

In accordance with the General Code of Practice, the following (known as ‘reporters’) are subject to the reporting requirements:

- Members of the Fund.
- Fife Council officers.
- Pension Committee members.
- Fife Pension Board.
- Scheme employers.
- Third party providers (where so employed).
- Professional advisers (including the Fund Actuary, investment advisers, legal advisers)

This policy applies only to members, Fife Council officers, the Committee and the Fife Pension Board. Other reporters should ensure policies are put in place to identify, assess and where necessary report breaches. Both Fife Council and the Pension Board will take all necessary steps to consider and report a breach rather relying on it being reported by another ‘reporter’.

Requirement to report a breach of the law

The Code states that ‘there are two key judgements required when deciding to report a breach of the law’:

- Is there is reasonable cause to believe there has been a breach of the law?
- Is the breach likely to be of material significance to us?

It should be noted that not every breach that is identified needs to be reported to the Regulator. For example, where it can be demonstrated that appropriate action is in place to rectify the breach, it may not be necessary to report to the Regulator. However, all incidences of breaches should be recorded in the breaches log to determine if there any trends that might indicate procedural failings or mismanagement. Action must then be taken to rectify the situation and prevent re-occurrences.

When is a breach required to be reported to the Regulator?

The General Code of Practice requires that a report must be made in writing as soon as reasonably practicable once there is reasonable cause to believe a breach has occurred and that it is of material significance to the Regulator. The Code states that in most cases this should be within 10 days of the breach being discovered.

Where it is considered to be a matter of urgency (for example the breach is a result of fraud) the matter should be brought to the Regulator’s attention immediately. A reporter should mark urgent reports as such and draw attention to matters considered particularly serious. If a reporter discovers

an urgent breach which is likely to have an immediate effect for scheme members, they should notify the tPR by telephone before submitting their report in writing.

Where prompt and effective action is taken to investigate and correct a breach and its causes and, where appropriate, notify affected members, the Regulator will not normally consider this to be materially significant.

However, a breach is likely to be of material significance if a breach has been identified and those involved:

- Do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise the risk or recurrence.
- Are not pursuing corrective action to a proper conclusion, or
- Fail to notify affected members where it would have been appropriate to do so.

Judging whether there is ‘reasonable cause’

As stated in the General Code of Practice, having reasonable cause means more than merely having a suspicion that cannot be substantiated.

Therefore, it will be necessary for robust checks to be carried out to establish whether or not a breach has actually occurred. Where necessary this will necessitate taking legal advice from Legal Services as well as other advisers (e.g. auditors, the Fund Actuary or investment advisers).

It would not be appropriate to carry out checks in cases of fraud, suspected fraud or other serious offences where discussions might alert those implicated or impede the actions of the police or a regulatory authority. Under these circumstances the reporter should alert the Regulator without delay.

Judging what is of ‘material significance’ to the Regulator

The Regulator’s General Code of Practice assists schemes in assessing the severity of a breach and whether it should then be reported. When determining materiality of the breach, members, officers, the Pension Committee and Pension Board will consider in all cases the:

Cause of the breach:

- dishonesty, negligence or reckless behaviour
- poor governance, ineffective controls resulting in deficient administration, or slow or inappropriate decision-making practices
- incomplete or inaccurate advice
- a deliberate act or failure to act

Effect of the breach:

- A significant proportion of members, or a significant proportion of members of a particular category of membership, are affected by the breach.
- The breach has a significant effect on the benefits being paid, to be paid, or being notified to members.
- The breach, or series of unrelated breaches, have a pattern of recurrence in relation to participating employers, certain members, or groups of members.
- Governing bodies that do not have the appropriate degree of knowledge and understanding, preventing them from fulfilling their roles and resulting in the scheme not being properly governed and administered and/or breaching other legal requirements.

- Unmanaged conflicts of interest within the governing body, making it prejudiced in the way it carries out the role, ineffective governance and scheme administration, and/or breaches of legal requirements.
- Systems of governance (where applicable) and/or internal controls are not established or operated. This leads to schemes not being run in line with their governing documents and other legal requirements.
- Risks are not properly identified and managed and/or the right money is not being paid to or by the scheme at the right time.
- Accurate information about benefits and scheme administration is not being provided to scheme members and others meaning members are unable to effectively plan or make decisions about their retirement.
- Records are not being maintained. This results in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Governing bodies or anyone associated with the scheme misappropriate scheme assets or are likely to do so.
- Trustees of defined benefit schemes not complying with requirements of the Pension Protection Fund during an assessment period.

Reaction to the breach:

If prompt and effective action is taken to investigate and correct the breach and its causes and where appropriate, notify any affected members, the Regulator will not normally consider this to be materially significant.

A breach is likely to be of concern and material significance to the Regulator if a breach has been identified that:

- does not receive prompt and effective action to remedy the breach and identify and tackle its cause to minimise risk of recurrence
- is not being given the right priority by the governing body or relevant service providers
- has not been communicated to affected scheme members where it would have been appropriate to do so
- forms part of a series of breaches indicating poor governance
- it was caused by dishonesty, even when action has been taken to resolve the matter quickly and effectively

Wider implications of the breach:

These should be considered when assessing whether it is likely to be materially significant to the Regulator. For example, a breach is likely to be of material significance where:

- the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future (the reason could be that the governing body lacks the appropriate knowledge and understanding to fulfil their responsibilities)

Those reporting a breach should consider general risk factors, such as how well-run the scheme appears to be. Some breaches that occur in a poorly funded and/or poorly administered scheme will be more significant to the Regulator than if they occurred in a well-funded, well-administered scheme.

Reporters should consider other reported and unreported breaches that they are aware of. However, reporters should use historical information with care, particularly where changes have been made to address breaches already identified.

The Regulator will not usually regard a breach arising from an isolated incident as materially significant. For example, breaches resulting from teething problems with a new system, or from an unpredictable combination of circumstances. However, in such circumstances reporters should

consider other aspects of the breach, such as the severity of the effect it has had that may make it materially significant.

Submitting a report to the Regulator

Reports must be submitted in writing using the tPR online web form, or email or by post. The tPR does not usually accept reports by telephone. However, if a reporter discovers a breach which is likely to have an immediate and damaging effect for scheme members, they should telephone the tPR before submitting their report in writing.

A report should be dated and include as a minimum:

- full name of the scheme.
- description of the breach or breaches.
- any relevant dates.
- name of the employer.
- name, position and contact details of the reporter.
- role of the reporter in relation to the scheme.

Additional information that would help the Regulator includes:

- the reason why the breach is considered to be of material significance.
- scheme address.
- scheme manager contact details.
- description of actions taken to rectify the breach.
- whether the breach has been reported before.

The Monitoring Officer will be responsible for ensuring the effective management of the breach identified including submission of any report to the Regulator. Any documentation supporting the breach will also be retained.

Whistleblowing protection and confidentiality

It is a statutory duty to report breaches of the law. The Regulator will do its best to protect a reporter's identity and will not disclose the information except where lawfully required to do so. Given the statutory duty that exists in exercising this breaches policy, the Council will ensure that it adheres to the Employment Rights Act 1996, amended by the Public Interest Disclosure Act 1998, which provides protection for employees making a whistleblowing disclosure to the Regulator.

The duty to report however does not override 'legal privilege' so oral and written communications between the Council or Pension Board and a professional legal adviser do not have to be disclosed.

Reporting to the Pensions Committee and Pension Board

When a breach is identified, it will be reported immediately to the Chairs of the Pension Committee and the Pension Board.

Appendix A

Examples of Breaches

Example 1

An employer is late in paying over employee and employer contributions and so late it is in breach of the statutory period for making such payments. The Pension Team contacts the employer. The employer immediately pays the contributions that are overdue, and it improves its procedures so that in future contributions are paid over on time. In this instance there has been a breach but members have not been adversely affected and the employer has put its house in order regarding future payments. The breach is therefore not material to the Regulator and need not be reported.

Example 2

An employer is late in paying over employer and employee contributions, and so late it is in breach of the statutory period for making such payments. It is also late in paying AVCs to the AVC provider. It is contacted by the Pensions Team and it eventually pays the monies that are overdue, including AVCs to the AVC provider. This has happened before, with there being no evidence that the employer is putting its house in order. In this instance there has been a breach relevant to the Regulator in part because of the employer's repeated failures, and also because those members paying AVCs will typically be adversely affected by the delay in the investing of their AVCs.

Example 3

A member of the Pension Committee owns a property. A report is made to the Fund about a possible investment in the same area in which the member's property is situated. The member supports the investment but does not declare an interest and is later found to have materially benefited when the Fund's investment proceeds. In this case a material breach has arisen, not because of the conflict of interest, but rather because the conflict was not reported.

Example 4

A pension overpayment is discovered and thus the Pensions Team has failed to pay the right amounts to the right person at the right time. A breach has therefore occurred. The overpayment is however for a modest amount and the pensioner could not have known that (s)he was being overpaid. The overpayment is therefore waived. In this case there is no need to report the breach.

Alternative Formats

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

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

BT Text Direct – 18001 01592 55 11 91

Language Lines

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Review Date
May 2024

Author
Pensions Team Manager

Next Review Date
May 2025



Guide to Internal Dispute Resolution Procedure (IDRP)

Internal Dispute Resolution Procedure (IDRP)

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Introduction

This guide sets out Fife Pension Fund's formal process for settling disputes and disagreements. We hope that most problems can be dealt with informally, but also recognise that sometimes this is not possible.

Definition of a Member

Members, prospective members, or the widow, widower, partner or dependents of a deceased member ("members"), have access to the dispute procedure, which is a two-stage appeal process. A member can use the dispute process to settle any disagreement or complaint they may have about the decisions that have been made about them under the scheme rules. A member can also use the dispute procedure to help to settle any complaint they may have about the way their case has been dealt with.

Decisions by Employers

The Local Government Pension Scheme regulations require employers to make decisions relating to scheme membership and entitlement to benefits. For example: -

- Assessing the rate of pension contributions a member must pay.
- Benefit entitlement on leaving the scheme e.g. entitlement to an ill health pension, level of ill health pension awarded.

A scheme member, or prospective scheme member, who has a complaint relating to scheme membership, entitlement to benefits, or any decision that has been made by their employer which affects their benefits, should in the first instance contact the employer, giving them the opportunity to resolve the dispute. If a complaint cannot be resolved by the employer, the member can invoke the two-stage **Internal Disputes Resolution Procedure (IDRP)** by completing the appropriate IDRP appeal form (copy attached at Appendix A). Any complaints received under the Internal Disputes Resolution Procedure must be made in writing within **six months** of the date the member is notified of the decision which is being appealed against.

Decisions by the Administering Authority

Fife Council is the administering authority for the Fife Pension Fund. The Local Government Pension Scheme Regulations require Fife Council as administering authority to make decisions such as:

- Calculation and payment of benefits
- Calculation and treatment of transfer benefits
- Determination of whom benefits should be paid in the event of a member's death.

A Scheme member, or prospective Scheme member, who has a complaint relating to information received, the calculation and payment of benefits, or any decision that has been made by Fife Council (as Administering Authority) about their benefits, should in the first instance write to or email the Pensions Administration Team Leader.

Pensions Administration Team Leader
Fife Council
Fife House
North Street
Glenrothes
Fife KY7 5LT Email: John.Mackie@fife.gov.uk

If a complaint cannot be resolved by the Pensions Administration Team Leader a member can invoke the two-stage Internal Disputes Resolution Procedure (IDRP) by completing the Pension Complaints and Appeals Form (Appendix A). Any complaints made under the Internal Disputes Resolution Procedure should be made in writing within **six months** of the date the member is notified of the decision which is being appealed against (although an appeal may be accepted after the six months period).

The Internal Dispute Resolution Process

Stage 1 - Appeal to Appointed Person

If you are dissatisfied with a decision made by either your employer or Fife Council (as administering authority) that affects your pension rights, then you may submit an appeal within **six months** of being notified of the decision. An appeal may be accepted outwith the six months period if the Appointed Person considers it reasonable to do so. 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 Finance
- Executive Director, Finance & Corporate Services (for cases where a panel member had an earlier involvement in a dispute).

To submit an appeal, please complete the Pension Complaints and Appeals Form (Appendix A). The form should be returned to the Head of Legal & Democratic Services who, as the Appointed Person, will deal the appeal by consulting with other Panel members as required based on the circumstances of the case.

The Appointed Person must inform you of a decision or send you an interim reply that will give the date you can expect a decision, within **two months** of receiving your appeal.

Stage 2 – Appeal to Scottish Ministers

If you are dissatisfied with the Stage 1 decision made by the Appointed Person, there is a further right of appeal to the Scottish Ministers. There are strict timelines by which appeals to the Scottish Ministers should be made and these are given below: -

- before the end of 6 months from the date of the Appointed Person's decision
- if an interim reply has been sent but you do not receive a decision on the expected date, you may appeal within one month of the date given in the interim reply that a decision would be made by
- where no response or interim reply is sent to you after 2 months you may appeal by the end of the 3rd month after the date of your application to the Appointed Person

If you are not satisfied with the decision made by the Scottish Ministers, you can take your case to the Pensions Ombudsman.

External Bodies

There are regulatory bodies that may be able to assist you:

The Pensions Ombudsman

The Pensions Ombudsman investigates and decides complaints and disputes about the way that Pension Schemes are run. His role and powers have been decided by Parliament, and he is appointed by the Secretary of State for Work and Pensions. He is completely independent and acts as an impartial adjudicator. There is no charge for using the Pensions Ombudsman's services. The Pensions Ombudsman's decision is final and binding on all the parties to the complaint or dispute. It can be enforced in the Courts. His decision can only be changed by appealing to the appropriate court on a point of law.

Office of Pensions Ombudsman 10 South Colonnade Canary Wharf London E14 4PU	Website: www.pensions-ombudsman.org.uk Email: enquiries@pensions-ombudsman.org.uk
Tel : 0800 917 4487	Overseas : +44 (0) 207 630 2200

The Scottish Public Services Ombudsman

The Scottish Public Services Ombudsman can consider complaints which refer to administrative actions of the Scottish Public Pensions Agency (SPPA) but cannot accept complaints which refer to decisions or omissions relating to provisions of pension regulations.

Scottish Public Services Ombudsman (SPSO) Bridgeside House 99 McDonald Road Edinburgh EH7 4NS	Website: www.spsso.org.uk
Tel : 0800 377 7330	

Appendix A

Pensions Complaints & Appeals Process

You can use this form if you have a complaint about or wish to appeal against a decision relating to your pension. Please write clearly and in ink.

1. Member's Details

If you are the member (the person who is or was in the pension scheme), please give your details in this box. You can then go straight to Section 4.

If you are a member's dependant (for example, husband, wife or child) or if you are representing the person with the appeal/complaint, please give the member's details in this box then complete Section 2.

Name	
Address	
Date of Birth	
Employer	
National Insurance No.	

2. Dependant's Details

If you are the member's dependant and the appeal/complaint is about a benefit for you, please give your details in this box. If the appeal/complaint is about a benefit for a dependant and you are the dependant's representative, please give the dependant's details in this box.

Name	
Address	
Date of Birth	
Employer	
National Insurance No.	

3. Representative's Details

If you are the member's or dependant's representative, please give your details in this box.

Name	
Address	
Whose address should letters go to?	

4. Your Appeal / Complaint

Please give full details of your appeal/complaint in this box. Please try to explain exactly why you are aggrieved, giving any dates or periods of pension scheme membership that you think are relevant. If there is not enough space, please go on to a separate sheet and attach it to this form.

Your Signature

I would like the appointed person to investigate my appeal / complaint * and make a decision about it. I am a:

- scheme member / prospective member / former member *
- dependant or a former member *
- member's / dependant's representative *

(* delete as appropriate)

Signed: _____ Date: _____

Please enclose a copy of any notification you received from your employer or administering authority about the decision you are complaining about, together with any other letter or document that you think might be helpful. Please send this form to Head of Legal and Democratic Services, Fife Council, Fife House, North Street, Glenrothes, Fife, KY7 5LT.

Alternative Formats

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

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

BT Text Direct – 18001 01592 55 11 91

Language Lines

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Bengali	বাংলায় আলাপ করার জন্য টেলিফোন লাইন: 03451 55 55 99
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Review Date
May 2024

Author
Pensions Team Manager

Next Review Date
May 2025

28 June 2024

Agenda Item No. 11

Cost Transparency & CEM Benchmarking

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to provide 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). The report also provides details of the Fund's results from the annual CEM Benchmarking.

Recommendation(s)

The committee is asked to consider the contents of the report.

Resource Implications

None.

Legal & Risk Implications

Although there are no legal or risk implications from the content of this report, there is a risk that if costs are not reported on a transparent basis that the Fund is incurring additional expenditure it is not fully aware of.

Impact Assessment

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

Consultation

Consultation on the content of this report has taken place with the Joint Investment Strategy Panel and CEM Benchmarking.

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

1.0 Background

- 1.1 The Local Government Pension Scheme (LGPS), Scheme Advisory Board (Board / SAB) was set up under the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations. The purpose of the Board is to seek to encourage best practice, increase transparency and coordinate technical and standards issues as well as liaise with ministerial bodies and relevant sector regulators. The Board is keen that the LGPS is seen as a value led and innovative scheme and the increasing move toward investment fee transparency and consistency across pension funds / asset owners' forms part of this goal.
- 1.2 Cost transparency is also part of the revised CIPFA accounting standards issued for inclusion in LGPS and administering authorities' statutory annual report and accounts as well as being included in the government's criteria for pooling investments.
- 1.3 Investment costs are a complex area which pension committees and officers need to be familiar with. The LGPS Code of Transparency (set up by SAB) helps LGPS clients gather cost information in a consistent format. It should be noted that cost information must always be viewed in context of risk and return, and these factors should form part of any overall value for money assessment.

2.0 Fife Pension Fund Management Costs 2022-23

- 2.1 All of Fife Pension Fund managers provided completed CTI templates and the final audited accounts amended to reflect the information.
- 2.2 The table below summarises the management costs incurred for the previous 3 years.

	2020-21	2021-22	2022-23
	£m	£m	£m
Management Fees	8.692	10.661	11.222
Performance Related Fees	2.399	1.445	0.612
Custody Fees	0.184	0.115	0.175
Transaction Costs	3.319	4.106	1.932
	14.594	16.327	13.942

- 2.3 The Management Fees detailed above include both direct and indirect fees.

Direct fees are those invoiced to the Fife Pension Fund from the fund managers and are in most cases linked to the value of the assets held by that manager. In that respect it would be reasonable for these fees to vary as the value of the fund varies. The most volatile element relates to transaction costs. These are incurred in two ways, firstly, a fund manager will trade in markets to invest money flowing into or out of a fund, secondly, they will implement investment decisions in the course of the day-to-day management to achieve the fund's objectives.

Indirect fees are those which are paid by the fund managers as part of the day to day trading arrangements and are included within the “(Profit) and losses on disposal of investments and changes in the market value of investments” figure in the pension fund accounts.

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.

A breakdown of the costs per policy group is provided as Appendix 1.

- 2.4 To aid transparency, the Fife Pension Fund has traditionally asked the Investment Managers to provide this information at the end of each financial year and disclosed these amounts along with the direct fees to give a total management cost at the end of each financial year. The table below summarises the indirect fees included in the table above for the previous 3 years.

	£m
2020-21	8.857
2021-22	10.171
2022-23	10.276

- 2.5 Analysis of the fees would indicate that although there are movements year on year the majority of these are either in transaction costs, which reflect the investment decisions in the course of the day-to-day management, or performance fees resulting from managers exceeding their benchmark returns. This analysis reinforces the view that cost information, while always a factor, must be viewed within the context of risk and return and should only form part of any overall value for money assessment.

3.0 Investment Cost Benchmarking Analysis

- 3.1 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.
- 3.2 The results for Fife are compared with 6 other LGPS Funds and 39 other funds with total assets ranging from £0.8 billion to £3.9 billion. The median size in the peer group is £2.9 billion compared with Fife Pension Fund assets of £3.4 billion as at 31 March 2023.
- 3.3 Benchmarking is undertaken to help identify areas where improvements can be made to deliver better value for money. The process should facilitate:
- Comparison between costs and performance
 - The provision of evidence to support decision making relating to the sustainability and capability of the investment
 - Sharing of information and ideas with peers; and a review of performance trends over time.

- 3.4 CEM calculates a benchmark cost for Fife Pension Fund, which reflects the fund's asset class mix, relative to the asset class costs of the peer group funds.
- 3.5 Fife Pension Fund's actual costs to 31 March 2023 of approximately 0.44% of average assets were below the benchmark cost of 0.68%. Costs increased from 0.41% in 2018-19 to 0.44% in 2022-23.
- 3.6 CEM concluded that Fife had an aggregate higher cost implementation style, but this was offset but paying less than our peer for similar assets.
- 3.7 CEM highlight that the investment costs should be taken in the context of the fund's long-term net returns and risk. As part of the benchmarking, CEM provide the median annual return from their LGPS universe of 35 funds.
- 3.8 The analysis indicated that Fife Pension Fund had a net total 5-year return of +6.6% per annum which was above the LGPS median of 6.4% per annum. The 5-year benchmark return was 4.5% which was below the LGPS median of 5.7%.
- 3.9 CEM concludes that the Fife Pension Fund strategic asset allocation suggests that it takes less risk relative to the LGPS peer group.
- 3.10 In terms of value added, the analysis indicated the 5-year net value added was 2.1% compared to the LGPS median of 0.9%. The cumulative 5-year net value added has increased the funding of Fife Pension Fund by £332 million. The 5-year performance indicates that Fife Pension Fund has added value at a lower cost.
- 3.11 CEM do not provide an overall conclusion from the benchmarking exercise, rather it is an independent assessment of value for money. The assessment provides narrative about the fund and how it compares with others. There are no definitive conclusions as the costs incurred depends on the mix of assets, the implementation styles adopted, risk appetite and choices made.

4.0 Conclusions

- 4.1 Cost Transparency is an important part of the management of Local Government Pension Funds in order that relevant data is disclosed and both employers and Pension Committees understand their respective fees and costs.
- 4.2 Fife Pension Fund has for many years sought information from its investment managers about both the direct and indirect costs associated with its investments and has included these in its Annual Report and Accounts.
- 4.3 Fife Pension Fund investment managers provided their 2022-23 information via the CTI templates.
- 4.4 Analysis of the previous 3 years management costs indicates that although these vary year on year, these variations are due in the main to the day-to-day management of investment decisions or performance of the fund managers.

- 4.5 Benchmarking is also undertaken on an annual basis to provide like for like comparisons with similar funds, raising awareness of costs and allowing a review of performance trends over time. Participation in the benchmarking exercise has demonstrated that although the fund has a higher cost style, this was offset by paying less than our peers for similar assets.

List of Appendices

Appendix 1 – Fife Pension Fund – Investment Management Fees

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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Finance Operations Manager
Fife House
Telephone: 03451 55 55 55 Ext No 450552
Email – laurac.robertson@fife.gov.uk

**FIFE PENSION FUND
INVESTMENT MANAGEMENT FEES**

APPENDIX 1

2020-21	Fund Value	Mgt Fees Direct	Mgt Fees Indirect	Perf Related Fees Direct	Perf Related Fees Indirect	Custody Fees Direct	Transaction Costs Direct	Transaction Costs Indirect	Total	% of Fund Value
Equities	1,730.531	3.126	0.070	-	-	-	0.017	0.388	3.601	0.21%
Real Assets	358.047	0.472	2.529	-	1.920	-	0.353	0.634	5.908	1.65%
Non Gilt Debt	607.118	(0.165)	0.671	0.479	-	-	-	0.204	1.189	0.20%
LDI	181.364	0.068	-	-	-	-	-	-	0.068	0.04%
Others	278.469	1.203	0.718	-	-	-	-	1.723	3.644	1.31%
Global Custodian	-	-	-	-	-	0.184	-	-	0.184	-
Cash	150.899	-	-	-	-	-	-	-	-	-
Total	3,306.428	4.704	3.988	0.479	1.920	0.184	0.370	2.949	14.594	0.44%

2021-22	Fund Value	Mgt Fees Direct	Mgt Fees Indirect	Perf Related Fees Direct	Perf Related Fees Indirect	Custody Fees Direct	Transaction Costs Direct	Transaction Costs Indirect	Total	% of Fund Value
Equities	1,507.274	2.194	0.335	-	-	-	0.017	0.632	3.179	0.21%
Real Assets	517.989	0.465	4.666	-	1.405	-	1.695	0.347	8.577	1.66%
Non Gilt Debt	619.205	(0.042)	0.731	0.041	-	-	-	(0.045)	0.684	0.11%
LDI	282.978	0.136	-	-	-	-	-	(0.000)	0.136	0.05%
Others	430.808	1.398	0.779	-	-	-	0.058	1.321	3.556	0.83%
Global Custodian	-	-	-	-	-	0.115	0.081	-	0.196	-
Cash	175.574	-	-	-	-	-	-	-	-	-
Total	3,533.827	4.150	6.511	0.041	1.405	0.115	1.851	2.255	16.327	0.46%

2022-23	Fund Value	Mgt Fees Direct	Mgt Fees Indirect	Perf Related Fees Direct	Perf Related Fees Indirect	Custody Fees Direct	Transaction Costs Direct	Transaction Costs Indirect	Total	% of Fund Value
Equities	1,700.291	1.347	0.340	-	-	-	0.160	(0.041)	1.807	0.11%
Real Assets	657.407	0.516	8.422	-	0.528	-	1.426	0.220	11.113	1.69%
Non Gilt Debt	462.353	(0.152)	0.674	-	0.084	-	0.000	0.068	0.674	0.15%
LDI	416.864	0.074	-	-	-	-	0.000	(0.019)	0.056	0.01%
Global Custodian	-	-	-	-	-	0.175	0.118	-	0.293	-
Cash	188.602	-	-	-	-	-	-	-	-	-
Total	3,425.516	1.786	9.436	-	0.612	0.175	1.704	0.228	13.942	0.41%

28 June 2024

Agenda Item No. 12

Pension Fund Training and Development

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to review performance and progress in respect of implementation of the training policy for members of the Pensions Committee and Fife Pension Board, and to highlight the requirement for all pension committee and board members to undertake the Pension Regulator online learning toolkit.

Recommendation

The committee is asked to:

- 1) Note that a varied training programme has been provided over the last financial year on a range of topics;
- 2) Note the requirement for members of Committee and Board to meet the minimum level of 14 hours training ;
- 3) Agree to undertake the required level of training and provide details of doing so, including the Pension Regulators toolkit; and
- 4) Note that work has progressed to support members to achieve their training requirements. Compliance will continue to be kept under review and reported on a regular basis.

Resource Implications

Attendance at industry events and conferences may incur costs, as might invitation of professional advisers and industry experts speaking at internal events. These costs will be funded by the Pension Fund.

Legal & Risk Implications

There are risks associated with elected members making decisions without suitable training. Committee and board members are required by the regulator to attend training in line with the Pension Fund's agreed training policy. Training is a Compliance Standard on the Governance Compliance Checklist and will be recorded as partially compliant in the Annual Report.

Policy & Impact Assessment

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

Consultation

The Pension Board, which comprises 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 Background

- 1.1.1 The requirement for pension fund decision making being overseen by persons with relevant skills, knowledge and understanding is referenced and documented in various regulations and guidance including Myner's Principles and The Pensioner Regulator Code 14.
- 1.1.2 To assist with this and to support members a training policy was developed in 2019.
- 1.1.3 Training and development is also a key principle of the Governance Compliance Statement, at this time the fund is partially compliant with this principle. This will be included in the Annual Report and Accounts.

1.2 Policy approved 2019

- 1.2.1 A report on the training policy for members of the then Superannuation and Pension Fund Committee and Fife Pension Board was considered and approved at its meeting in May 2019.

The policy stipulated that :

New members of the Pensions Committee and/or Pension Board will be offered induction training by Scheme Manager when taking up their role. This training will provide an overview of the structure and operation of the Fund.

Members of the Pensions Committee and Pension Board will also be required to undertake no less than two days (14 hours) of training in each financial year. This training obligation will be met through the following:

- *Internal training events designed specifically for this purpose and to cover a range of pension administration and investment matters.*
- *External events for Funds' stakeholders, such as the annual employer seminar and finance briefing.*
- *Seminars and conferences offered by industry wide bodies, such as the LAPFF, LGC and NAPF.*

- *Seminars and training events offered by the Fund's external professional advisers, investment managers and other service providers.*
- *Online training, including that provided by the Pensions Regulator (e.g. the Pensions Trustee and Public Service Schemes/Toolkits).*
- *Other training deemed appropriate by the Scheme Manager from time to time.*

In designing a programme of training for the members of the Pensions Committee and the Pension Board the Scheme Manager will have regard to the Pensions Regulator's codes of practice and guidelines, the CIPFA Guidelines on the Principles for Investment Decision Making in the Local Government Pension Scheme and the CIPFA Knowledge and Skills Framework issued from time to time.

Members of the Pension Board may be required to attend further specific training which will focus on any regulatory, legislative or other technical updates which they should be aware of in the performance of their compliance role.

- 1.2.2 Previously the approach to training requirements had been on a flexible basis with the needs of the Committee and Pension board being provided for on a more ad-hoc basis. Training was offered but it was up to the individual if they wished to attend or otherwise.

1.3 Update to Policy

- 1.3.1 During 2020 a Training Needs Assessment (TNA) was carried out to assess the topics to be delivered as part of a training programme. Based on the TNA a revised approach to training was adopted.

1.4 Approach Adopted

- 1.4.1 In view of the new ability to work remotely, the training needs assessment and complex committee reports, a tailored approach to training has been developed.
- 1.4.2 The approach adopted is to provide a series of internal training events to be scheduled in advance of Committee meetings. These sessions will be delivered by both the Fund's external and professional advisers for example. Lothian Pension Fund, Hymans Robertson, CMS, officers and other external experts.
- 1.4.3 It is intended that the sessions are provided in advance of Committee meeting and will cover more in-depth topics that are being considered at Committee.
- 1.4.4 Dates are scheduled in advance and are scheduled in line with the Committee workplan. Attendance at these events will contribute towards the minimum training requirement of 14 hours.
- 1.4.5 In addition, details of industry wide conferences and events will continue to be shared with members as well as invitations to events organised by the funds external advisers.
- 1.4.6 It has previously been agreed that all members of the new Committee and all members of the Board complete the Pensions Regulator toolkit. This is a mandatory requirement with completion expected within a 6 month time period of the first new Committee date. Individuals are expected to demonstrate completion by sharing the

completion certificate with the Head of Finance. The Toolkit can be accessed from this link [Public Service toolkit online learning | The Pensions Regulator](#)

- 1.4.7 The Scottish Scheme Advisory Board (SAB) recognises the importance of training board members in its Annual Report and is also committed to developing training for board members in the future work programme. This may be an additional opportunity for Pension Board members to increase their hours of relevant training each year.

2.0 Training

2.1 Training Provided 2023-24

- 2.1.1 In line with the agreed approach, during the last financial year a number of internal training sessions have been provided to committee and the Board as follows;

Training Date	Topics Covered
7 th September, 6 th and 12 th December and 18 th March	<ul style="list-style-type: none"> • Induction training for new members of committee and board.
29 May 2023 (3 hours)	<ul style="list-style-type: none"> • Valuation 2023 • Cyber Security • Cost Transparency
28 August 2023 (2 hours)	<ul style="list-style-type: none"> • Governance in LGPS and Good Governance Review • Pension Fund Annual Report and External Audit process • Valuation 2023
14 th September 2023 (3 hours)	<ul style="list-style-type: none"> • Investment Strategy
23 rd November 2023 (3 hours)	<ul style="list-style-type: none"> • Pension Dashboards 2023
6 th February 2024 (3 hours)	<ul style="list-style-type: none"> • Investment Strategy (Strategic Asset Allocation)
4 th March 2024 (3 hours)	<ul style="list-style-type: none"> • Valuation 2023 • tPR General Code of Practice • Cessation Amendments and New Regulations

The majority of these sessions were provided using Microsoft Teams, where possible sessions were recorded.

- 2.1.2 Training sessions have been scheduled for 2024-25 and will cover areas such as more in-depth consideration of policy groups and investment performance and currency hedging.
- 2.1.3 Evaluation of each internal training event was carried out using MS Forms and the results shared with the Committee and Board.
- 2.1.4 The evaluations completed by training attendees continue to help inform how future training sessions are delivered and help shape the content for example, making recordings available, introducing pre-reading materials and considering the length of training sessions.
- 2.1.5 To date the feedback has been positive with the majority of members agreeing that the session did increase their knowledge and they felt better informed to consider the report at the forthcoming committee meetings.
- 2.1.6 Two sessions were held on blended basis with our partner funds, covering the investment strategy. These sessions were beneficial and well received by members. Discussions around future training being provided in collaboration with partner funds is ongoing.

2.2 Recording of Attendance

- 2.2.1 It is the responsibility of members to record details of attendance at external seminars and events and pass these to Members Services who maintain records of elected members attendance at events. Progress in relation to meeting the training requirements will be reported to the committee each year.
- 2.2.2 Details of total training hours completed in 2023-24 are summarised as follows:

Pension Committee Attendance at Training													
		Cllr. Dempsey (convener)	Cllr Pryde (vice convener)	Cllr Davidson	Cllr Liston (from June 23)	Cllr Alexander	Cllr Neal	Cllr Patrick	Cllr Anis-Miah (joined Oct 23)	Cllr Calder (joined Feb 24)	Cllr Dillion (resigned June 23)	Cllr Mowatt (Resigned Oct 23)	Cllr Tepp (resigned Feb 24)
TPR Toolkit	5 hours												
TPR Scams	1 hour												
Total Hours in year		53	20	25	18	19	14	14	2	5	3	7	23
Total Hours Required in Year (pro-rata as required)		14	14	14	11	14	14	14	5	1	3	8	13
Balance Outstanding		0	0	0	0	0	0	0	-3	0	0	-1	0

Pension Board Attendance at Training										
		Cllr. Adams	Cllr Ballantyne-Wardlaw	Gail Dunn	Robert Graham	Ross Hugh	Colin Paterson	Vicki Wyse	Thomas Templeman (from Nov 23)	Ian Dawson (resigned Nov 23)
TPR Toolkit	5 hours									
TPR Scams	1 hour									
Total Hours in year		46.25	22.25	21.25	14.25	13	19.75	16.25	16.25	3
Total Hours Required in Year (pro-rata as required)		14	14	14	14	14	14	14	5	9
Balance Outstanding		0	0	0	0	-1	0	0	0	-6
Key										
Not Completed Mandatory Training										
Training Completed / Attended										
Training Partially Completed /Attended										
Not applicable										

According to the information shared with Members Services, eight members of the Committee and seven members of the Board have met the minimum time requirement of 14 hours per annum or equivalent for those appointed part way through the year. In some instances, the training was completed after the 31 March 2024.

It should be noted that this has been prepared based on the information received and it may not include training that has been undertaken but Members Services have not been informed. Members are reminded to prioritise their attendance at training sessions wherever possible and to provide details of training undertaken.

- 2.2.3 It is recognised that some external training dates can clash with other Committee dates. By providing more internally organised training opportunities, cognisance is taken of major meeting dates to avoid clashes and give the best opportunity for attendance. Dates have already been scheduled for the 2024-25 in line with the agreed Committee dates.
- 2.2.4 Including the investment strategy training, a total of 17 hours were offered to the Committee and Board as internal or collaborative events, a further 5-6 hours could be achieved by completing the TPR toolkit.
- 2.2.5 To date six members of the Committee have advised that they fully completed the TPR toolkit within the timescales, with seven members of the Board advising they have fully completed the toolkit. Two members have partially completed the toolkit as have 1 or 2 modules outstanding. One member still has time to complete the toolkit based on the date they joined the Committee.
- 2.2.6 Completion of the toolkit is mandatory per the approved training policy, therefore the Committee and Board are not demonstrating full compliance. To date no sanctions have agreed as a result of non-compliance.

- 2.2.7 Non-compliance with the policy is currently being raised with the relevant members to explore whether the approach to training suits members needs. Feedback from this exercise will be considered and options explored. In addition, this report is being shared with each of the group leaders for awareness.
- 2.2.8 Maximising attendance at events is also highlighted in the audit report also on this agenda. Actions have been identified to address the recommendation in that report including the updating of the training policy to reflect the new code of practice. An updated training policy will also consider options to help members meet their training needs.

3.0 Training Requirements

- 3.1 Induction training is provided to all new Committee and Board members. Throughout 2023-24, a further four sessions were delivered to new members.
- 3.2 In order to establish the training requirements of all members, a Training Needs Assessment (TNA) was carried out to assess the needs of the Committee and Board and help prioritise training to increase the level of knowledge and skills across the range of required topics.
- 3.3 The TNA highlighted that the majority of respondents had some knowledge of Pensions, however, there were a number of areas highlighted where respondents felt training would be appropriate. These include the Valuation Process, relationships with Employers, Administration and Communication policies, Investment including Responsible Investment. Risk and procurement were also highlighted. Because the outcome of the TNA suggested a wide range of range needs existed, the Training Policy was adapted to incorporate in-house quarterly training sessions dealing with the most pressing topics in the committee cycle and also with a focus on the most significant risk within the Pension Fund risk register. This approach has been rolled out and participation and feedback has been relatively positive.
- 3.4 To compliment training events, an MS Teams site has been set up and all relevant materials have been saved there. The new TPR single code contains best practice in relation to Knowledge and Understanding and consideration will be given to how to achieve best practice when undertaking the planned assessment and gap analysis.

4.0 Committee Attendance

- 4.1 In addition to monitoring attendance at training events, detail of attendance at Committee meetings is also recorded. This is detailed in the tables below:

Pension Committee Attendance												
Date	Clr. Dempsey (convener)	Clr Pryde (vice convener)	Clr Davidson	Clr Liston (from June 23)	Clr Alexander	Clr Neal	Clr Patrick	Clr Anis-Miah (joined Oct 23)	Clr Calder (joined Feb 24)	Clr Dillion (resigned June 23)	Clr Mowatt (Resigned Oct 23)	Clr Tepp (resigned Feb 24)
23rd June 2023	✓	✓			✓	✓	✓					✓
30th June 2023	✓	✓			✓	✓	✓				✓	✓
28th September 2023	✓	✓	✓	✓	✓	✓					✓	✓
14th December 2023	✓	✓	✓	✓	✓	✓	✓	✓				✓
28th March 2024	✓	✓		✓	✓				✓			
% Attended	100%	100%	40%	100%	100%	80%	60%	50%	100%	0%	100%	100%
Pension Board Attendance at Committee												
Date	Clr. Adams	Clr Ballantyne-Wardlaw	Gail Dunn	Robert Graham	Ross Hugh	Colin Paterson	Vicki Wyse	Thomas Templeman (from Nov 23)	Ian Dawson (resigned Nov 23)			
23rd June 2023	✓	✓	✓	✓			✓		✓			
30th June 2023			✓	✓	✓		✓					
28th September 2023		✓	✓	✓	✓	✓						
14th December 2023	✓	✓	✓	✓	✓	✓	✓	✓				
28th March 2024	✓		✓	✓	✓	✓	✓	✓				
% Attended	60%	60%	100%	100%	80%	60%	80%	100%	33%			

5.0 Conclusions

- 5.1 A training policy was approved by Committee in May 2019 and further refined and updated in 2021.
- 5.2 Training has been provided in line with the approved approach.
- 5.3 The single Code of Practice contains best practice in respect of Knowledge and Understanding. Consideration will be given as to how best practice in this area can be achieved when undertaking the planned assessment of current compliance with the code.

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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28 June 2024

Agenda Item No. 13

Risk Management - Quarterly Review

Report by: Elaine Muir, Head of Finance

Wards Affected: ALL

Purpose

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

Recommendation(s)

The Committee are asked to:

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

Resource Implications

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

Legal & Risk Implications

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

Impact Assessment

An EqIA Assessment is not required.

Consultation

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

1.0 Background

- 1.1 As reported previously, a fund specific risk register has been developed in accordance with the Pensions Regulator’s Code of Practice. The risk register covers investment, governance and administration risk. It is held as a separate risk register on Ideagen, Fife Council’s risk management system and is reviewed on a quarterly basis by the Pensions Governance Group, which is an officers group chaired by the Head of Finance.
- 1.2 The risk register forms a key part of the risk management strategy for Fund. It provides a structured and focussed approach to managing risks.
- 1.3 An updated risk register was presented to committee in March. Since that time the register has been reviewed by the Pensions Governance Group at its meeting on 01 May 2024 and again by the Finance Operations Manager following completion of the committee reports. These reviews included an assessment of risks and the effectiveness of associated internal controls, as well as considering any additional risks to be added and any additional context.
- 1.4 The recent internal audit on Oversight, Governance and Scrutiny, highlighted that although risks were reviewed, Ideagen was not always updated to document that review. Action has been agreed to rectify this and the system will be updated on a timely basis.
- 1.5 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 Two risks have moved from being low to medium due to a change in the likelihood moving from “unlikely” to “possible”. These risks relate to “Failure to Comply with LGPS regulations” and “Failure to keep records up to date”. The likelihood has changed to reflect the delays being experienced in receiving data to progress the work required with the McCloud judgement. This means that there is an increased likelihood that records will not be amended in time and regulations will not be complied with.
- 2.4 Ongoing dialogue is taking place with employers and a project team is in place within the Pensions team, however, action will be taken to develop a more structured approach and a project plan.
- 2.5 Comparison of the current scores with the previous quarter demonstrates that following review and actions taken within the last quarter, the current risk score for all other risks remains the same.
- 2.6 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.
 - Staffing training and provision of training is currently considered as partially effective at this time. This reflects the fact that following a recent and current recruitment process, newly recruited team members will continue to require training for a period of time.
- 2.7 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.
- 2.8 Taking account of the controls in place, there are currently 7 risks classed as insignificant, 8 classed as low risks and 4 risks are identified as medium.
- 2.9 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 May 2024.
- 2.10 Following the recent audit of Risk Management arrangements for the Pension Fund, some progress has been made in dealing with the actions identified. Dialogue is taking place with the Council’s Risk Management Co-ordinator to help improve the recording of risks in Ideagen and the presentation for reporting in the future. Unfortunately, the development work has stalled due to other workload associated with the valuation and investment strategy.
- 2.11 The risks have been updated to be measured using the PESTELO model which means assessing the impact and likelihood of the risk against the following categories; Political, Environmental, Social, Technological, Legal, and Organisational. Considering the risk in these terms allows for a more thorough and consistent assessment.

- 2.12 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, action will be taken to adapt the standard reporting to enhance it for Committee to reduce the volume and improve the presentation.
- 2.13 The recent audit of Risk Management arrangements for the Pension Fund did make recommendations including the review of the Risk Management Manual and Risk Appetite. Given the workload associated with the valuation and investment strategy these actions have not been fully progressed by the revised deadline. An assessment of the work required, and the likely completion date will be undertaken and progress reported back to the Committee in September.

3.0 Conclusions

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

List of Appendices

1. Pension Fund Risk Register

Background Papers

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

- LGPS Risk Management Policy, Superannuation Fund and Pensions Sub-Committee and Fife Pension Board May 2019
- Risk Management Review Superannuation Fund and Pensions Committee and Fife Pension Board September 2021
- Risk Management Quarterly Update Pensions Committee March 2023

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Fife Pension Fund Risk Register













Generated on: 20 June 2024















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>As a result of:</p> <ul style="list-style-type: none"> • Non-availability of Altair pension system. • ORACLE payroll system key staff or error omission. • Lack of availability of information and payment from AVC provider etc. <p>There is a risk that:</p> <ul style="list-style-type: none"> • We do not process pension payments and lump sums on time. <p>Which could result in:</p> <ul style="list-style-type: none"> • Retiring members being paid late which may have implications for their own finances. • Reputational risk for the Fund. • Financial cost to the fund if interest has to be paid to members. 	<ul style="list-style-type: none"> • Retiring members will be paid late which may have implications for their own finances. • Reputational risk for the Fund. <p>Financial cost to the fund if interest has to be paid to members.</p>	<ul style="list-style-type: none"> • Non-availability of Altair pension system, • ORACLE payroll system key staff or error omission, • Availability of information and payment from AVC provider etc. 	Laura C Robertson	12	BC plans covering the F&CS Directorate regularly updated.		6	3	01 May 2024
					Robust maintenance and update of Altair				
					Hosted contractual arrangement for Altair including Disaster Recovery Plan and Business Continuity Plan				
					Sufficient staff cover arrangements				
					Staff training and development and checking of work				
					Robust maintenance and update of ORACLE.				
					Hosted contractual arrangement for ORACLE including Disaster Recovery Plan and Business Continuity Plan				
					Comprehensive documented procedures and guides				
					Information and Funds received from AVC providers received on a timeous basis				
Current Impacts									




Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
<p>As a result of:</p> <ul style="list-style-type: none"> • Non-availability of Authority Financials system • No key staff • Errors and/or omissions • Failure of employers' financial systems • Failure to communicate with employers effectively • Failure of employer to provide required information. <p>There is a risk that:</p> <ul style="list-style-type: none"> • We fail to collect and account for contributions from employers and employees on time <p>Which could result in:</p> <ul style="list-style-type: none"> • Adverse audit opinion for failure to collect contributions by 19th of month. • Potential delays to employers' FRS17, FRS102 and IAS19 year-end accounting reports. 	<ul style="list-style-type: none"> • Adverse audit opinion for failure to collect contributions by 19th of month Potential delays to employers' FRS17,FRS102 and IAS19 year-end accounting reports 	<ul style="list-style-type: none"> • Non-availability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. • Failure of employer to provide required information. 	Laura C Robertson	9	Robust maintenance and update of Altair		3	3	01 May 24
					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.				
									
Current Impacts	Financial Consequences								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
<p>As a result of:</p> <ul style="list-style-type: none"> Contributions from employees/employers being too low Failure of investment strategy to deliver adequate returns Significant increases in longevity, etc. <p>There is a risk that:</p> <ul style="list-style-type: none"> We are unable to meet liabilities as they fall due. <p>Which could result in:</p> <ul style="list-style-type: none"> Immediate cash injections being required from employers or increased contribution rates. 	<ul style="list-style-type: none"> Immediate cash injections would be required from employers or increased contribution rates. 	<ul style="list-style-type: none"> Contributions from employees/employers too low Failure of investment strategy to deliver adequate returns Significant increases in longevity, etc. 	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	01 May 24
								
Current Impacts								









Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
As a result of: <ul style="list-style-type: none"> • Fire • Bomb • Flood • Pandemics • flu epidemic • strike action etc. 	<ul style="list-style-type: none"> • Temporary loss of ability to provide service. 	<ul style="list-style-type: none"> • Fire • Bomb • Flood • Pandemics • Flu epidemic • Strike action etc. 	Laura C Robertson	12	BC plans covering the F&CS Directorate regularly updated.		6	4	01 May 24
					Robust maintenance and update of Altair				
There is a risk that: <ul style="list-style-type: none"> • We are unable to keep service going due to loss of main office, computer system or staff. 					Hosted contractual arrangement for Altair including Disaster Recovery Plan and Business Continuity Plan				
Which could result in:									
Current Impacts									

















Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
<p>As a result of:</p> <ul style="list-style-type: none"> • Fraud or misappropriation of funds by an employer, employee, agent or contractor <p>There is a risk that:</p> <ul style="list-style-type: none"> • We lose funds through Fraud or Misappropriation. <p>Which could result in:</p> <ul style="list-style-type: none"> • Financial loss to the fund. 	<ul style="list-style-type: none"> • Financial loss to the fund 	<ul style="list-style-type: none"> • Fraud or misappropriation of funds by an employer, employee, agent or contractor 	Elaine Muir	12	Regular monitoring of cash flow		6	3	01 May 24
					Internal and external audit regularly test that appropriate controls are in place and working effectively				
					Regulatory control reports from investment managers, custodian, etc are also reviewed by audit.				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Reliance is also placed on Financial Conduct Authority registration				
					Performance monitored on an ongoing quarterly basis				
					Newsletter for Pension Scheme members				
					Annual Employer Forum				
					Internal Policies and Procedures in place.				
					National Fraud Initiative				
									
Current Impacts	Financial Consequence - loss to the fund								







Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
<p>As a result of:</p> <ul style="list-style-type: none"> • Scheme liabilities increase disproportionately as a result of increased longevity • Falling bond yields • Changing retirement patterns, etc. <p>There is a risk that:</p> <ul style="list-style-type: none"> • Employers become unable to participate in scheme due collapse of private contractors and other bodies admitted into the Fund. <p>Which could result in:</p> <ul style="list-style-type: none"> • Fund maturing more quickly. 	<ul style="list-style-type: none"> • Fund matures more quickly 	<p>Scheme liabilities increase disproportionately as a result of:</p> <ul style="list-style-type: none"> • increased longevity • falling bond yields • changing retirement patterns, etc. 	Elaine Muir	6	<p>Ongoing communication with employers </p> <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>Full Actuarial Valuation undertaken every 3 years. </p> <p>Due diligence is carried out when a new Fund Manager is appointed. </p> <p>Employer Covenant issued by Actuary following actuarial assessment to allow admitted bodies access to the Fund. </p> <p>Maintenance and monitoring of spreadsheets ensuring contributions are paid within 19 days of pay day. </p>	3	3	01 May 24
Current Impacts	Financial Consequences							








Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
<p>As a result of:</p> <ul style="list-style-type: none"> Poor economic conditions. Incorrect investment strategy. Poor performance of investment managers. <p>There is a risk that:</p> <ul style="list-style-type: none"> There are significant rises in employer contributions due to poor/negative investment returns. <p>Which could result in:</p> <ul style="list-style-type: none"> Poor/negative investment returns leading to increased employer contribution rates. 	<ul style="list-style-type: none"> Poor/negative investment returns leading to increased employer contribution rates. 	<ul style="list-style-type: none"> Poor economic conditions, incorrect investment strategy. Poor performance of investment managers 	Elaine Muir	16	<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>Ongoing advice from investment consultants etc</p> <p>Performance monitored on an ongoing quarterly basis</p> <p>Diversified range of investment managers over different asset classes</p> <p>Strategic Investment advice from Independent Advisors</p>	3	3	01 May 24
								
Current Impacts	Financial consequences							








Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
<p>As a result of:</p> <ul style="list-style-type: none"> The financial collapse of the global custodian. Failure to safeguard assets or records. <p>There is a risk that:</p> <ul style="list-style-type: none"> There is a failure of Global Custodian. <p>Which could result in:</p> <ul style="list-style-type: none"> Financial loss to the fund. Loss of information. 	<ul style="list-style-type: none"> Financial loss to the fund. Loss of information. 	<ul style="list-style-type: none"> Financial collapse of global custodian or failure to safeguard assets or records. 	Elaine Muir	5	IT contacts are managed and reviewed in line with industry best practice.	4	4	01 March 24
					Performance monitored on an ongoing quarterly basis	4		
					Legal agreement with Custodian	4		
					Credit Rating monitored on an ongoing basis	4		
					Regulated by Financial Services Authority	4		
					Assets not on Custodian balance sheet	4		
					Annual review meeting which takes place to discuss and ensure contractual obligations have been fulfilled.	4		
Current Impacts	Financial Consequences							











Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
<p>As a result of:</p> <ul style="list-style-type: none"> The Market sector falling substantially. <p>There is a risk that:</p> <ul style="list-style-type: none"> The Investment Manager fails to manage equities and other investments. Council's management of the contract with Investment manager. <p>Which could result in:</p> <ul style="list-style-type: none"> Financial loss to the fund. 	<ul style="list-style-type: none"> Financial loss to the fund 	<ul style="list-style-type: none"> Market sector falls substantially 	Elaine Muir	4	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due 	3	3	01 May 24
					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 			
								
Current Impacts	Financial Consequences							








Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
<p>As a result of:</p> <ul style="list-style-type: none"> Lack of technical expertise/staff resources to research regulations IT systems not updated to reflect current legislation, etc <p>There is a risk that:</p> <ul style="list-style-type: none"> We fail to comply with LGPS and other Regulations. <p>Which could result in:</p> <ul style="list-style-type: none"> Wrong pension payments are made, or estimates given. New scheme and regulations are not fully known therefore staff will be unfamiliar. 	<ul style="list-style-type: none"> Wrong pension payments made or estimates given. New scheme and regulations not fully known therefore staff will be unfamiliar 	<ul style="list-style-type: none"> Lack of technical expertise/staff resources to research regulations IT systems not updated to reflect current legislation, etc 	Laura C Robertson	9	Staff training and development and checking of work		9	2	20 June 24
					Ongoing advice from investment consultants etc				
					Internal and external audit regularly test that appropriate controls are in place and working effectively				
					Regulatory control reports from investment managers, custodian, etc are also reviewed by audit.				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Verification process in place within Pensions section, ongoing staff training undertaken.				
					Provision of training				
					Strategic Investment advice from Independent Advisors				
					Consultation with Peer Groups				
					In the short term advice can be sought				
					Altair configured based on processes which are aligned to legislation ensuring compliance				
					iConnect allows verification of records from ORACLE to Altair				
					Working in collaboration with other funds on investment matters. Relationships formed with professional advisors, other funds and networks. These relationships allow the team to keep up to date with developments and changes to legislation and regulation as well as discussing and agreeing best practice.				
									
Current Impacts	Financial Consequences as a result of incorrect decision making								






Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
As a result of: <ul style="list-style-type: none"> Insufficient security of data Inadequate data retention policy Backup and recovery There is a risk that: <ul style="list-style-type: none"> We fail to hold personal data securely. Which could result in: <ul style="list-style-type: none"> Data lost. Reputational damage. 	<ul style="list-style-type: none"> Data lost or compromised Reputational risk. 	<ul style="list-style-type: none"> Insufficient security of data Inadequate data retention policy, backup and recovery procedures. 	Laura C Robertson	6	Data Protection Act procedures adhered to and all staff have completed appropriate mandatory DPA training  Secure communications channels in place  System access controlled  Altair complies with the appropriate ISO standards require by a hosted system 	3	3	01 May 24
								
Current Impacts								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
<p>As a result of:</p> <ul style="list-style-type: none"> Poor or non-existent notification of by employers of new starts Amendments Leavers, etc. <p>There is a risk that:</p> <ul style="list-style-type: none"> We fail to keep pension records up to date and accurate. <p>Which could result in:</p> <ul style="list-style-type: none"> Incorrect records leading to incorrect estimates being issued. Potentially incorrect pensions being paid. 	<ul style="list-style-type: none"> Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid 	<ul style="list-style-type: none"> Poor or non-existent notification of by employers of new starts, amendments, leavers, etc. 	Laura C Robertson	9	Robust maintenance and update of Altair		9	3	20 June 24
					Ongoing communication with employers				
					Verification process in place within Pensions section, ongoing staff training undertaken.				
					Robust maintenance and update of ORACLE.				
					iConnect allows verification of records from ORACLE to Altair				
					Members self-service gives members the opportunity to check and update their own records				
									
Current Impacts									






Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated		
<p>As a result of:</p> <ul style="list-style-type: none"> Lack of training. continuous professional development. Turnover of members <p>There is a risk that:</p> <ul style="list-style-type: none"> Committee and board members have inadequate knowledge and understanding. <p>Which could result in:</p> <ul style="list-style-type: none"> Detrimental decisions made in relation to the Pension Fund and management of the fund. 	<ul style="list-style-type: none"> Detrimental decisions made in relation to the Pension Fund and management of the fund 	<ul style="list-style-type: none"> Lack of training and continuous professional development. 	Elaine Muir	8	Provision of training		9	4	01 May 24	
					Strategic Investment advice from Independent Advisors					
						Consultation with Peer Groups				
						Attendance at events/webinars				
										
Current Impacts	Financial Consequences									









Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
<p>As a result of:</p> <ul style="list-style-type: none"> The specialist nature of work, there are relatively few experts in investments and the LGPS regulations. Staff illness Staff turnover <p>There is a risk that:</p> <ul style="list-style-type: none"> We over rely on key officers. <p>Which could result in:</p> <ul style="list-style-type: none"> a knowledge gap. difficulty recruiting staff. 	<ul style="list-style-type: none"> If an officer leaves or falls ill knowledge gap may be difficult to fill. 	<ul style="list-style-type: none"> Specialist nature of work means there are relatively few experts in investments and the LGPS regulations. 	Laura C Robertson	16	Sufficient staff cover arrangements		6	3	01 May 24
					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.				
									
Current Impacts									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
As a result of: • Lack of clear communication of policy and actions particularly with employers and scheme members. There is a risk that: • We fail to communicate properly with stakeholders. Which could result in: • Scheme members not aware of their rights resulting in bad decisions • Employers not aware of regulations, procedures, etc.	Scheme members not aware of their rights resulting in bad decisions Employers not aware of regulations, procedures, etc.	Lack of clear communication of policy and actions particularly with employers and scheme members	Laura C Robertson	8	Pensions website		2	2	01 May 24
					Regular updates for employers				
					Newsletter for Pension Scheme members				
					Annual Employer Forum				
									
Current Impacts									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
<p>As a result of:</p> <ul style="list-style-type: none"> • Non attendance due to: • Scheduling of meetings • Other commitments of elected members • Adverse weather conditions • Illness • Lack of connectivity for virtual meetings <p>There is a risk that:</p> <ul style="list-style-type: none"> • The committee will not have a quorum able to meet and undertake the business scheduled to be considered at the meeting. <p>Which could result in:</p> <ul style="list-style-type: none"> • Meetings not going ahead and decision making is delayed to subsequent meetings resulting in delay in implementation of any proposals or policy matters. 	<ul style="list-style-type: none"> • Meetings do not go ahead and decision making is delayed to subsequent meetings resulting in delay in implementation of any proposals or policy matters. 	<ul style="list-style-type: none"> • Non attendance could be as a result of: • Scheduling of meetings • Other commitments of elected members • Adverse weather conditions • Illness • Lack of connectivity for virtual meetings 	Elaine Muir	12	Standing Orders - As required by the Act and Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014 	4	4	01 May 24
					Committee Workplan 			
								
Current Impacts								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
<p>As a result of:</p> <ul style="list-style-type: none"> a cyber security attack. <p>There is a risk that:</p> <ul style="list-style-type: none"> data is compromised and not secure and systems do not operate. <p>Which may result in:</p> <ul style="list-style-type: none"> fraud. sharing of personal details. theft of personal details. Scams. not being able to provide service as systems compromised. 	<ul style="list-style-type: none"> Members may not be paid. Members could have personal details stolen and used for criminal offences. Fraud of pension fund from use of personal details. Reputational risk for the fund. 	<ul style="list-style-type: none"> Cyber security attack could compromise the system and the data held in the system resulting in security breaches, noncompliance with legislation, potential fraud and criminal offences. Attacks could also mean the system cannot be used and as a result a service cannot be provided. 	Elaine Muir	20	Maintenance of an ICT Strategy that correctly identifies and addresses the key challenges to delivering the information and technology required to support the delivery of services by Fife Council.	12	6	01 May 24
					Ensuring adequate provision is made for identified critical systems including, where necessary, secondary processing location in the case of the primary one failing and associated recovery procedures.			
					Corporate board has effective oversight of ICT for Fife Council and agrees strategic direction and policies to be applied to ensure ICT remains aligned, effective and secure.			
					IT contacts are managed and reviewed in line with industry best practice.			
					Process of gateway reviews which ensures that ICT and digital solutions are secure, sustainable, economical and compliant to the agreed standards and regulations.			
					There are established processes for reporting and investing all forms of security and Major incidents and lessons are learned from the outcomes.			
					All significant proposed changes to the network, hardware and software are reviewed for potential impact on the infrastructure and to ensure there are contingency rollback options identified before they can go ahead.			
					Tools are in place (including SCOM, Solarwinds) actively monitor Fife Council's infrastructure with the intention of fixing issues before they become faults. Also improves understanding of where faults are so that they can be resolved quickly.			
					Implement the Scottish Cyber Resilience Public Sector Action Plan. This sets out the key actions that the Scottish Government, public bodies and key partners will take to further enhance cyber resilience in Scotland's public sector. https://www.gov.scot/publications/cyber-resilience-strategy-scotland-public-sector-action-plan-2017-18/pages/2/			
					The strategy sets out our approach to keeping software up to date balancing the benefits of security fixes and minor upgrades against the risks of the patches impacting adversely on other elements of our infrastructure. The enhanced requirements for PSN compliance raises the importance of getting security fixes rolled out effectively.			
The Information Governance Working Group includes senior managers from across Fife Council and is responsible for ensuring Fife Council's compliance in matters relating to data protection, information governance and records management. The Group will provide annual reports to the SIRO. The approach ensures that senior management across all Directorates have appropriate visibility of, and involvement in, IRM strategy development and decision making.								
Certificates of compliance with Cyber Essentials scheme and ISOs from Software suppliers								
Cloud Hosting								
Cyber Essentials Training								
Current Impacts	Financial Consequence							

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated
<p>As a result of:</p> <ul style="list-style-type: none"> the Fund entering into investment management agreements with Lothian Pension Fund as a fund manager. <p>There is a risk that:</p> <ul style="list-style-type: none"> there is a conflict of interest in terms of the shared services agreement and arrangements in place for investment advice <p>Which may result in:</p> <ul style="list-style-type: none"> reduced level of independence in advice being given. 	<p>Potential impacts identified for this risk include:-</p> <ul style="list-style-type: none"> decisions not made on independent advice poor investment decisions reduced level of returns lack of diversified investments 	<ul style="list-style-type: none"> Market conditions Performance of mandates Lack of Investment Strategy 	Elaine Muir	9	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due 	2	2	01 May 24
					Regulated by Financial Services Authority 			
Current Impacts								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status	Current Risk Score	Target Risk Score	Risk Last Updated	
Inflationary Increase			Elaine Muir	16	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due		6	4	01 May 2024
					Regular monitoring of cash flow				
					Strategic Investment advice from Independent Advisors				
					Budgetary control reports are prepared which estimate the costs and income based on trends of previous years. These provide indicative information to monitor financial management of the fund.				
					Diversified range of investment managers over different asset classes				
									
Current Impacts									

28 June 2024

Agenda Item No. 14

National Fraud Initiative

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

Wards Affected: All

Purpose

To advise the Committee of progress to date on the mandatory, biennial 2022/23 National Fraud Initiative (NFI) exercise from a pensions perspective, including the voluntary Pensions Mortality Screening exercises.

Recommendation(s)

The Pensions Committee is asked to note and consider the contents of this report and the progress made to date.

Resource Implications

Participation in the NFI requires staff resources to be made available throughout Fife Council to co-ordinate the exercise, upload datasets and investigate data matches.

In total, the NFI exercise (incorporating the mandatory biennial exercise and the voluntary Pensions Mortality Screening exercises) identified overpayments of £223,603.81, of which £153,168.60 is being recovered. In relation to pensions specifically, overpayments of £73,976.54 were identified, of which £52,551.02 is being recovered. The recovery figure may increase over time as more information comes to light.

Legal & Risk Implications

Participation in the biennial NFI exercise is mandatory.

Impact Assessment

An Equality Impact Assessment is not required because the report does not impact on Council policy and does not require a decision.

Consultation

Audit Services has consulted with all relevant services.

1.0 Background

- 1.1 The NFI is a biennial data matching exercise, co-ordinated at a national level by the Cabinet Office, designed to help participating bodies detect fraud and error. Computerised techniques are utilised to compare electronic data held by different public and private sector bodies in Scotland, England and Wales and identify data matches, which may, following further examination, uncover the existence of fraud or error. In Scotland, over 100 public bodies participate in the NFI exercise, which is led by Audit Scotland. Participation is mandatory for Fife Council.
- 1.2 The Senior Responsible Officer for the NFI exercise in the Council is the Executive Director of Finance and Corporate Services, and the Key Contacts work within the Council's Corporate Fraud Team (CFT), reporting operationally to the Service Manager - Audit and Risk Management Services. Key Contact responsibilities include:
 - fulfilling the organisation's privacy notice requirements (in conjunction with the organisation's data protection officer or equivalent)
 - ensuring that the data formats guidance and data specifications are followed
 - liaising with Services to nominate appropriate users to upload data submissions, investigate the matches and act as the point of contact for other bodies about a match (preferred dataset contact)
 - co-ordinating and monitoring the overall exercise
 - ensuring that outcomes from the investigation of matches are recorded on the web application promptly and accurately
- 1.3 The mandatory datasets submitted by the Council in September 2022 for the biennial 2022/23 NFI exercise were as follows:
 - Pensions - Fife Pension Fund (current & deferred)
 - Payroll
 - Housing Tenants (former tenants who completed a right to buy application during the period stated in the specification & current tenants)
 - Housing Waiting List
 - Blue Badges
 - Resident Parking Permits
 - Taxi Driver Licenses
 - Creditors (current / standing & historic)
 - Council Tax Reduction Scheme
 - Electoral Register
 - Council Tax Single Person Discount / Exemptions (known as Council Tax Re-Check)
- 1.4 A Business Rates dataset was later uploaded in line with national guidance following completion of the Non-Domestic Rates revaluation exercise in April 2023.
- 1.5 Lastly, in addition to the above, the Council pays the NFI to take part in a six-monthly Pensions Mortality Screening exercise. Corresponding datasets were uploaded most recently in June and December 2023.

2.0 NFI Progress

- 2.1 Copies of NFI documentation for the 2022/23 exercises were provided to all participants. The Council also made this information available to its stakeholders via the Intranet and Fife.gov.uk.
- 2.2 Matches relating to the main biennial exercise datasets, were made available to participating bodies, including the Council, by the Cabinet Office in two tranches: 26 January 2023 and 3 February 2023. Subsequently, additional matches were released to the Council between 2 March 2023 and 19 April 2024.
- 2.3 The recommended approach by the Cabinet Office was to concentrate on very high / high quality rated matches, with other matches being investigated in line with local protocols should resource be available. The dataset contacts / nominated officers, including those in the Pensions Team, were advised of this requirement.
- 2.4 A total of 10,692 matches were received by Fife Council, 6,274 of which have been investigated in line with the approach set out at paragraph 2.3. In total, the NFI exercise (incorporating the mandatory biennial exercise and the voluntary Pensions Mortality Screening exercises) identified overpayments of £223,603.81, of which £153,168.60 is being recovered.
- 2.5 In relation to pensions specifically, 626 matches were received by Fife Council, 313 of which were investigated. The Service reported that, because of the deceased persons information provided as part of the NFI exercise, 26 pensions were ended. This resulted in overpayments of £73,976.54, of which recovery is being sought for £52,551.02. This recovery figure may increase over time should the Pensions Team manage to establish next of kin for those they have contacted but are yet to receive a response.
- 2.6 Appendix A to this report provides a full breakdown of the 626 matches, along with numbers investigated and related outcomes. Table 1 below provides a high-level summary of the pensions related outcomes (as at 15 May 2024) relating to the investigations carried out.

Table 1 – Pensions Related Outcomes as at 15 May 2024

NFI Fife Council				
	Fraud	Error(s)	Outcome £	Recovering £
Pensions (including Mortality Screening Exercises)	0	93	73,976.54	52,551.02

3.0 Conclusions

- 3.1 The NFI is a mandatory biennial data matching exercise, co-ordinated at a national level by the Cabinet Office, designed to help participating bodies, including the Council, detect fraud and error. In addition to the biennial exercise, the Council pays the NFI to take part in Pensions Mortality Screening exercises.
- 3.2 A total of 626 pensions-related matches were received by Fife Council, 313 of which were investigated. These investigations identified overpayments of £73,976.54, of which £52,551.02 is being recovered. The recovery figure may increase over time as more information comes to light.

List of Appendices

- A. Summary of Pensions Related Matches and Outcomes (as at 14 May 2024)

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Summary of Pensions Related NFI Matches and Outcomes (as at 14 May 2024)

	Matches				Processed Matches (Outcomes)		
	Received	Processed	Fraud	Errors	Notional Value* £	Financial Outcome £	Recovering £
Deferred Pensions	9	9	0	0	0.00	0.00	0.00
Pensions (including Mortality Screening)	617	304	0	93	771,275.83	73,976.54	52,551.02
Total	626	313	0	93	771,275.83	73,976.54	52,551.02

* The notional value is a value estimated by the NFI, based on national guidance / statistics, that represents the amount the Council could ultimately save by addressing these errors now.

28 June 2024

Agenda Item No. 15

Pensions Committee Workplan and Training Plan

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to provide the Committee with an overview of the proposed agendas for future meetings of the Pensions Committee and the annual cycle. The report also highlights the proposed internal training sessions designed to complement Committee meetings and allow members more time to explore topics in depth.

Recommendation(s)

The Committee is asked to:-

1. Consider and comment on the agenda planning document; and
2. Note the scheduled training dates.

Resource Implications

There are no resource implications arising from this report.

Legal & Risk Implications

There are no direct legal implications arising from this report.

Impact Assessment

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

Consultation

None

1.0 Background

- 1.1 In order for the Committee and Pension Board to gain an overview of the content of future meetings, as well as an awareness of the cyclical nature of items, a committee workplan is submitted to each meeting.
- 1.2 There will, of course be specific matters and papers which need to be brought to the attention of Committee in addition to those set out in the workplan. These will be added to the work programme as soon as they become apparent.
- 1.3 The workplan is attached as Appendix 1.

2.0 Workplan

- 2.1 The proposed agenda items for future meetings are set out below, based on the usual Committee cycle plus any known additional report requests.

Pension Committee Workplan 2024-25					
Report Title	Report Category	Committee Dates			
		24 Sep & 30 Sep 24	13 Dec 24	31 Mar 25	20 Jun & 30 June 25
Administration					
Review of Administration Strategy	Administration	x			
Transfer In Criteria	Administration		x		
Governance					
Fife Pension Fund Business Plan and Budget	Governance			x	
Fife Pension Fund Annual Report and Accounts	Governance	x			x
Annual Audit Report by External Audit	Governance	x			
Pension Fund Budgetary Control - Projected Outturn	Governance		x		x
Update on Fife Pension Fund Business Plan (incl Admin Performance)	Governance	x	x	x	x
National Fraud Initiative	Governance				x
Communication Policy	Governance		x		
Update on Annual Internal Audit Plan and Summary of Reports	Governance			x	
Internal Audit Post Audit Review Report	Governance			x	
Annual Internal Audit Report	Governance			x	
Annual Governance Statement	Governance				x
Training and Development	Governance				x
Audit Plans (Internal and External)	Governance			x	
Investment					
Fife Pension Fund- Investment Update	Investment	x	x	x	x
Statement of Investment Principles	Investment	x			x
Statement of Responsible Investment Principles (update)	Investment	x			x
Annual Review of Shared Services Agreement	Investment			x	
CEM Benchmarking and Cost Transparency	Investment			x	
Risk					
Risk Management Update	Risk	x	x	x	x

- 2.2 In recognition of the need to balance the volume of business alongside the statutory deadlines for consideration of the annual report and accounts, additional meetings has been scheduled in September 2024 and June 2025. These meetings have been scheduled to give the flexibility to manage the volume of business over two meetings if required. The split of agenda items across the meetings has yet to be determined.

3.0 Training Plan

- 3.1 Targeted training will continue to be scheduled prior to committee meetings to provide more detailed information and training before reports are considered. This is consistent with the agreed Training Policy.
- 3.2 The table below outlines some of the topics likely to be scheduled in the coming year and the intention is to build a training plan over the summer months that will allocate the topics across the coming 12 months. Availability of trainers and content of committee reports will be considered to assess the best timing for the sessions. Provisional dates have been agreed and scheduled in members calendars and are shown in the column headings in the table as follows:

Training Schedule 2024-25						
	Training Dates					
Topics to be covered	30-Aug-24	06-Sep-24	18-Nov-24	03-Mar-25	23-May-25	02-Jun-25
Administration						
KPI - use of Power BI reporting						
Pension Dashboards						
Funding						
Future Actuarial Valuation						
Governance						
Fife Council Councillors Code of Conduct						
The Role of the Pension Board						
Annual Report Guidance						
Investment						
Policy Groups Deep Dives						
Responsible Investment incl Engagement - Hermes						
Foreign Exchange Transactions						
Independent Advisers						
Currency Hedging						
Asset Classes and Benchmarking						
Risk						
Risk Management Update						
General						
Meet the Advisers						

- 3.3 In addition, discussion is ongoing with our partner funds on the possibility of delivering joint training sessions similar to the sessions delivered on the Investment Strategy earlier this year. The logistics of this are somewhat more complicated but discussions are underway as to how best to deliver this while fitting in with each of the three funds calendars. Dates and subject matter will be confirmed in due course.

Doing so may influence the construct of the dates noted in the Training Plan table above.

- 3.4 Development of the training policy may also have an influence on the development of the training plan moving forward.

4.0 Conclusions

- 4.1 A detailed workplan for the business of the Committee has been prepared and outlines the cyclical nature of reports.
- 4.2 Provisional training dates have been scheduled and the scheduling of the training plan will be developed over the summer months..

List of Appendices

1. Committee Workplan

Background Papers

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

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PENSION COMMITTEE WORKPLAN

Frequency	Agenda Items
Quarterly	Fife Pension Fund - Investment Update Risk Management Review Update on Fife Pension Fund Business Plan incl Administration Performance
Bi-annual	Fife Pension Fund Budgetary Control
Annual	Audit Plans (internal and external) CEM Benchmarking and Cost Transparency Business Plan Internal Audit Post Audit Review Report Update on 2023/24 Internal Audit Plan and Summary of Audit Reports issued Draft Annual Report and Accounts Annual Internal Audit Report Annual Governance statement Training and Development Statement of Investment Principles Statement of Responsible Investment Principles Annual Audit Report and Accounts Annual Review of Shared Service Arrangement National Fraud Initiative Communication Policy
Every 3 years	Actuarial Valuation Updates Actuarial Valuation Funding Statement Strategy Investment Strategy Administration Strategy
As required	Audit Reports (Internal) Policy Reviews Currency Hedging