

Fife Pension Fund Annual Report & Accounts 2019-20



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MANAGEMENT COMMENTARY

Introduction

Welcome to the Annual Report and Accounts for the 2019-20 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) Regulation 2018 and supporting guidance issued by Scottish Ministers. The accounts have been prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Coronavirus (COVID19)

The first few months of 2020 saw the outbreak of a global pandemic, coronavirus (COVID19) which resulted in both the UK and Scottish Governments imposing restrictions through guidance and law on the movement of people with full effect from 23 March 2020. In response to the Government restrictions, the Council closed all offices to the public schools and other facilities were closed meaning that all staff involved in Pension Fund business have been working from home since then.

The onset of the COVID-19 pandemic had a significant impact on the Fund as financial markets were falling by nearly 10% in a day but rebounding the next, resulting in the fund being valued at £2.5bn at 31 March compared to previously reported £2.8bn at the end of December. Although volatile, markets have continued to trade, and the pension fund investments have been subject to that volatility. It is important to note that the pension fund takes a long-term outlook when considering the implications of such events.

The outbreak of COVID19 also gives rise to material valuation uncertainty in respect of Level 3 investments. This is fully disclosed in note 5 to the Financial Statements.

Strategy and Business Model

As explained in the Funding Strategy Statement on page 66, the fund has a long term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due. Fund health is monitored every three years by means of review by an independent actuary (see Triennial Review, page 22).

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 as a result of the COVID19 pandemic. 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 22). The risk of losing money on investments is managed by dividing assets between a number of separate investment management firms, chosen to offer diversity and a range of investment styles as set out in the Investment Management Arrangements section of this report. The principal risks facing the fund are described in more detail in the Statement of Investment Principles (Appendix A).

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

Review of the Year

Key Facts and Figures

Value of the Fund – The fund is valued at £2,535.587m as at 31 March 2020.

An operational and investment deficit of £75.924m was generated on the activities of the fund (compared to a surplus £190.084m for the year ended 31 March 2019).

The decrease in the value of the fund is due in the main to a decrease in the market value of investments (£102.175m) which is offset by a surplus of contributions receivable (£100.340m) less benefits payable (£90.375m) and management expenses (£16.087m), investment net income (£29.919m)

Performance of the fund - the fund has outperformed the 3 year benchmark of 0.63% by 2.73%

Fund membership increased by 853 to 36,608

Employers contributed £80.922m to the fund (£78.661m to 31 March 2019)

Employees contributed £19.418m (£18.754m to 31 March 2019)

Pensions and other benefits paid out were £87.700m (£82.215m to 31 March 2019).

Transfer values paid into the fund because staff changed employers was £2.454m (£2.146m to 31 March 2019).

Transfer values paid out of the fund because staff changed employers was £2.442m (£4.027m to 31 March 2019).

The fund has returned -3.32% in the year, overperforming against the composite benchmark of -6.03% by 2.71% (net of fees). The fund has outperformed the 3 year benchmark of 0.63% by 2.73% and the 5 year benchmark of 3.93% by 2.08%, and the benchmark since inception of 7.11% by 0.42% (net of fees).

The change in value of the fund over any given period is a combination of new money flows into or out of the Fund and any gain or loss on the capital value of its investments. During the year income from dividends and interest was £30.070m (2018-19 £22.762m). The fund suffered a net withdrawal of £3.668m (2018-19 Surplus £1.176m) as management expenses were greater than the net surplus generated from member contributions receivable over pension payments.

Further the fund experienced a net capital loss of £102.175m (2018-19 £166.377m) as a direct result of the reduction in value due to the market reaction to Coronavirus (COVID19) pandemic. Irrecoverable withholding tax reduced the value of the fund by £0.151m (2018-19 £0.231m).

Reports considered at the Superannuation Fund and Pension Committee in March 2020, highlighted that the fund had performed well and delivered a return of 2.6% over the previous quarter due to the strong performance of equity mandates, at that time the fund was valued at £2.829bn. The accounts are based on the market value of investments at 31 March 2020. This means that they include the profit or loss that has been made, due to the change in the value of investments, over the period from the date of their purchase to 31 March 2020 even although no actual sale has taken place. This notional value is defined as “unrealised” profit or loss. By contrast “realised” profits and losses are those that have arisen from actual sales throughout the year.

Fife Pension Fund complies with CIPFA guidance in terms of accounting for and disclosing transaction costs. Details are disclosed in Notes 9 and 9a of the accounts. Transaction costs for 2019-20 are reported as £3.539m (2018-19 £0.925m). The increase represents an increase in costs for CBRE reflecting the work they have completed this year. There is also an increase in costs reported for Baillie Gifford. Participation in the Cost Transparency Initiative and completion of templates has highlighted costs that were not previously disclosed or reported.

Transaction costs of administering Pension Funds as well as Management and Performance Fees are coming under increased scrutiny across the industry with initiatives such as the Cost Transparency Initiative continue to be developed, including the development of a national software tool called Byhiras.

Fife Pension Fund participated in CEM Benchmarking exercise for 2018-19 and the results were reported to Committee in March 2020. The results concluded that the fund has performed well in terms of both transaction costs and returns in comparison with our peers.

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 A) and the Fund's Funding Strategy Statement (Appendix D) give more information on the fund's investment framework at the start of the year.

Fife Pension Fund continues in its collaboration arrangement with City of Edinburgh Council for the provision of investment advice from its arms-length organisation known as Lothian Pension Fund Investment (LPFI). This is the second year of collaboration and officers have continued to participate in the Joint Investment Strategy Panel (JISP).

The Investment Strategy of the fund was approved by the then Superannuation Fund & Pensions Sub Committee in December 2018. Following approval, the fund delegates responsibility for implementation of the strategy to the Head of Finance, who takes advice from the JISP. With this and other professional advice and support the Head of Finance reviews, assesses the risk and return and manages the implementation. The previous strategy, expressed in terms of the new policy groups, and the updated strategy for the next 5 years are set out in the table below.

Asset Category	Previous Strategy %	Updated Strategy 2019-24 %
Equities	60	50
Other Real Assets	15	20
Non-Gilt Debt	15	15
Gilts	10	15
Cash	0	0
Total	100	100

The updated strategy aims to reduce investment risk over time predominantly by reducing the allocation to equities. Options to reduce risk within the equity allocation is also being explored as an alternative to reducing the allocation to equities where appropriate.

Ranges to limit asset allocations under normal financial conditions are proposed. These are shown in the table below. 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. The minimum level will allow equities to be reduced by a further 10% in the future if the bond yield increases.

Asset Category	Minimum %	Updated Strategy 2019-24 %	Maximum %
Equities	40	50	65
Other Real Assets	10	20	30
Non-Gilt Debt	5	15	25
Gilts	0	15	20
Cash	0	0	10
Total		100	

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

Investment Performance and Implementation of Investment Strategy

The value of the Fund's assets reduced to £2.539bn at 31 March 2020. .

The Fund's asset allocation at 31 March 2020 is shown in below. Relative to asset allocation, the Fund was overweight in equity, balanced/diversified assets and cash and underweight the other policy groups.

Asset Allocation at 31 March 2020

Asset Class	Manager	Current Allocation (£m)	Current Allocation (%)	Target Allocation (%)	Difference (%)
Equities		1,509	60%	50%	10%
	Blackrock	376	15%		
	Baillie Gifford	550	22%		
	Blackrock (GLOVE mirror)	181	7%		
	State Street	401	16%		
Other Real Assets		318	13%	20%	-7%
	CBRE Property	234	9%		
	Partners Infrastructure	60	2%		
	Other Infrastructure	23	1%		
Non-Gilt Debt		207	8%	15%	-7%
	Janus Henderson Corporates	91	4%		
	Western Asset Corporates	94	4%		
	Private Debt	22	1%		
Gilts		180	7%	15%	-8%
	Janus Henderson Gilts	92	4%		
	Western Asset Gilts	88	3%		
Balanced/Diversified		235	9%	0%	9%
	Baillie Gifford	235	9%		
Cash		90	4%	0%	4%
Total Fund		2,539	100%	100%	

Source: Northern Trust

Throughout 2019-20, the Pension Fund undertook some changes in investment allocation as it began implementing the agreed investment strategy.

In December 2019, the fund completed a transition of assets from Lazard Equity mandate (c£210m, c7% fund assets) to a Global Low Volatility Equity (GLOVE) mandate, aiming to achieve a better risk-adjusted return. The mandate is currently being managed by Blackrock on a passive basis and is a mirror of the Lothian GLOVE portfolio. Implementation of this mandate supports the investment strategy towards the target equity structure comprising lower-risk core equity mandates, supplemented by non-core equity strategies that provide diversification.

In addition, by working with the collaborative partners, the fund was able to participate in some Infrastructure Investment opportunities that would not have been afforded to it previously. Modest infrastructure investments reflect the strategy implementation. The infrastructure investments made were:

- £3m - Resonance – Renewables
- £6m - Dalmore – Social Infrastructure
- £2.5m - Equitix – Gas Distribution Network and
- \$7m – Alinda – Infrastructure Fund.

Opportunities also arose to make commitments to Private Debt investments and again this is commensurate with the Investment Strategy. Although relatively small, this represents a new asset type for the Fund and commitment was made of £20m to Alcentra, a European Private debt investment and \$20m commitment was made to Madison, an American private debt investment. These investments increase the commitment to the Non-Gilt Debt policy group.

Although all modest changes, these are reflective of the investment strategy and included in the table above. The cash balance at 31 March 2020 was £90m (4% of Fund assets). Committed amounts not yet drawn at 31 March 2020 were: Partners Group EUR34m (£30m); Madison MCF Senior Debt Fund USD 9m (£7m) and Alcentra European Direct Lending Fund III £10m. This leaves an uncommitted cash balance of £43m (2.0% of Fund assets).

Investment Trends and Influences

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

Structure of Administration

Administration Arrangements

The Pensions Team

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

The team administers the Fife Pension Fund, in accordance with legislative requirements, in the following areas:

- administration of pension records
- calculation and payment of retirement benefits, death benefits and transfer values
- providing guidance to scheme members and employers
- implementation and communication of regulatory updates
- maintenance and updating of the Member Self Service facility

Administration during COVID-19 Lockdown

IT arrangements were quickly put in place to allow team members to work from home, thereby ensuring a service was maintained to members and employers.

In line with The Pensions Regulator's COVID-19 guidance for trustees and public service, priority was given to

- paying members' benefits
- retirement processing
- bereavement services, as well as any administrative functions required to support these

The Fund has robust processes and contingency measures in place to ensure that these critical processes were carried out.

The team provided bulletins on the Fund's website at www.fifepensionfund.org detailing its revised working arrangements and how members and employers could contact the team during lockdown. Specific bulletins were also provided highlighting the increase in pension scams during COVID-19 and reassurance that LGPS pensions are not impacted by stock market conditions.

Staff Training and Development

The Fund provides a comprehensive training programme for the team. Development and training needs are identified to ensure that the relevant pension and systems knowledge is acquired, maintained and developed. Team members obtain a Certificate in Pensions Administration through the Chartered Institute of Payroll Professionals. Therefore, the team has a solid LGPS knowledge base.

Training is delivered in-house, at LGPS Secretariat workshops and training events organised by our software supplier, Aquila Heywood.

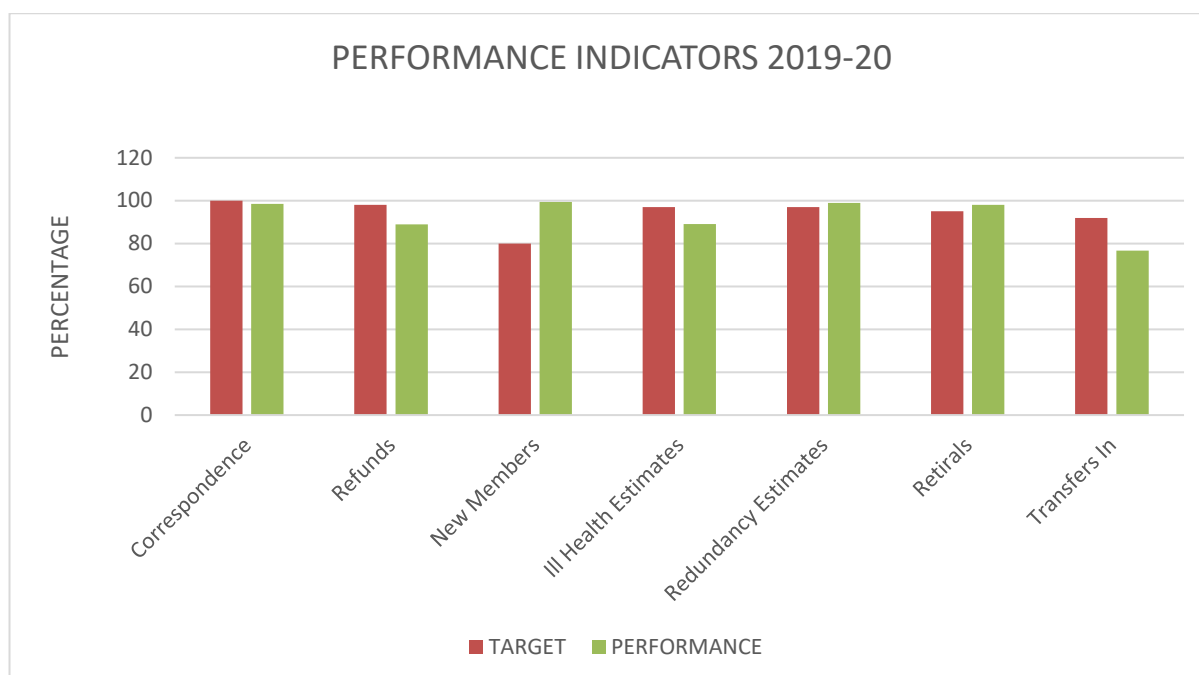
Administration Performance

Pension Administration Strategy

The Fund's Pension Administration Strategy Statement effectively consolidates all roles, responsibilities and expected performance targets for the team and scheme employers in one document. The primary objective of the strategy is to ensure that team continues to provide a high quality and cost effective pension service. The statement can be accessed at: www.fifepensionfund.org/Administration Policy

Performance Standards

Key performance indicators are prepared quarterly for the Committee and Pension Board and, if requested, on an annual basis to employers. The chart below provides performance data on the team's key targets for 2019-20.



It has been another busy year for the team, with targets being exceeded in three key performance indicators.

Statutory Annual Benefit Statements

Due to the timeliness and quality of information received from employers, the team was able to meet the statutory deadline of 31 August for issuing annual benefit statements.

Data Quality and preparation for triennial valuation as at 31 March 2020

The team has worked closely with the Fund's Actuary, Hymans Robertson, to identify any data gaps that would have an impact on the robustness of the final valuation extract. A data cleansing exercise was carried out in March based on individual membership details as at 31 March 2019 and employee contributions and pensions paid in 2018-19 and 2017-18. The exercise highlighted that overall the Fund's data is of good quality.

Updated GAD Factors

During the year the team has ensured that our systems have been updated to reflect changes to actuarial factors and calculation routines. Fife Pension Fund participated in a technical group involving GAD, the Scottish Public Pensions Agency (SPPA), and other Scottish Funds to agree a process on implementing revised GAD factors.

Operational Improvements

19 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. All remaining employers continue to be encouraged to use this facility.

Throughout the year internal processes and procedures were reviewed and streamlined where necessary to ensure administrative tasks are carried out effectively and efficiently.

Communications

Effective communication is vital to ensure both members and employers are aware of the benefits of the LGPS and are also kept up to date with scheme changes. The Fund's website continues to be updated regularly 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 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 are available on request. The team therefore carried out extensive communication exercises promoting the benefits of Member Self Service and highlighting annual benefits could be viewed on-line.

The team continues to work with employers in promoting Member Self Service to further encourage active members to register.

A specific communication campaign, was sent to deferred members highlighting the scheme change in June 2019 which allows deferred members to access their benefits from age 55.

Throughout 2019-20 the team worked on extending Member Self Service to pensioner members. Contact was made with the first group of pension members in March, detailing the features of Member Self Service and how to register for the facility. The team continues to roll this out to all pensioners.

The Fund is required to have a formal written communications statement which can be viewed at Appendix C and also at www.fifepensionfund.org/Communication Policy

Working with Scheme Employers

The team liaised closely throughout the year with employers on technical, procedural and policy matters. This ranged from helping with individual member cases to liaising with an employer who was transferring employees to an outside contractor under TUPE arrangements.

The SPPA issued updated guidance in February on ill health retirements and early payment of deferred guidance and all employers were made aware of this guide.

The 2020 Employers' Forum was due to be held on 1 April 2020. Due to concerns raised before the official UK lockdown measures, the Forum was cancelled on 16th March. A virtual Employers' Forum organised by Hymans Robertson was held in the summer.

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.

Key Legislative Changes – Scheme Specific Legislation

The Local Government Pension Scheme (Miscellaneous Amendments) (Scotland) Regulations 2019 (SSI 2019/161) came into force on 28th June 2019.

The regulations introduced the following main changes:

- If a member retires on ill health grounds, and prior to being retired has suffered a drop-in pay from having worked reduced hours due to illness, then in calculating scheme benefits no account is to be taken of the reduction in pay. This provision is effective from 1st April 2015.
- From 1st June 2018, all deferred members who have attained the age of 55 can elect to have their benefits paid out with immediate effect provided they are no longer in the employment which gave rise to the benefit (an individual with deferred benefits but now in a different local government employment would be able to access their benefits). Benefits taken prior to the normal scheme pension age will be subject to an early payment reduction.
- Where a member is on authorised leave for a continuous period of less than 31 days (other than through illness or injury) and has reduced pay or nil pay, then on their return to work they must pay their member contributions based on the pay they would have received but for the absence.
- One of the conditions for paying a pension to a surviving partner has been relaxed. Previously, at the time of his/her death, a member had to have been legally free to marry/form a civil partnership for a period of at least 2 years. Now the member only needs to have been free to marry/form a civil partnership at the time of his/her death. Other conditions however continue to apply (e.g. the member and partner must have been living together as a married couple/civil partners for at least 2 years and have been financially interdependent or the partner dependent on the member).
- Member contributions cannot be made on or after the day prior to the member's 75th

These changes were communicated to scheme members and employers.

The Local Government Pension Scheme (Increased Pension Entitlement) (Miscellaneous Amendments) (Scotland) Regulations 2019 came into force on 1 March 2020. These regulations relate to the overpayment of pensions arising from the Guaranteed Minimum Pension (GMP) reconciliation exercise. The regulations provide for a new scheme award known as an Increased Pension Entitlement (IPE) which reflects the GMP-related overpayment.

The LGPS (Miscellaneous Amendments) (Scotland) Regulations 2020 (SSI 2020/31) correct a drafting error in The Increased Pension Entitlement Regulations and allow administering authorities to apply to Scottish Ministers to substitute a different fund for a Scheme employer if that fund is also maintained by the same administering authority.

SPPA Consultation

The SPPA launched a consultation in January about possible changes to the current Scottish LGPS valuation cycle. The consultation also sought views on the impact of changes made in 2018 to Regulation 61 of the Local Government Pension Scheme (Scotland) Regulations 2018. These changes provide administering authorities with the option of suspending an employer's liability to pay an exit payment when managing the process of an employer exiting the scheme. Fife Pension Fund submitted a response.

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 2.4% effective from 8 April 2019. The increase was set by reference to the annual change in the Consumer Price Index measured as at September 2018.

CARE Scheme Revaluation

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

In accordance with The Public Service Pensions Revaluation (Prices) Order 2019, the in-service revaluation of 2.4% in respect of the scheme year was applied at one second after midnight on 31 March 2019.

Ending of contracting out – GMP scheme reconciliation exercise

The introduction of the new flat rate state pension scheme from 6 April 2016 brought to an end the option to contract out of the additional state pension scheme. Whilst protections are in place for existing contracting out rights, HMRC's contracting out support services have now been withdrawn. HMRC issued a closure schedule so that we can compare the contracted out details with the information held on our pension records. This is known as scheme GMP reconciliation. The team continues to work with ITM Ltd to ensure the data we hold is accurate.

2020 UK Budget

The Chancellor made the following pension related announcements: -

- changes to tapered annual allowance from 2020-21
- increase in the lifetime allowance for 2020-21, in line with the Consumer Prices Index, from £1,055,000 to £1,073,100
- consultation on changes to reform to Retail Prices Index methodology
- commitment to reviewing options for addressing differences in how pension schemes administer tax relief

McCloud Ruling – Impact on Administration

Although no decision has been made as to the format of a possible remedy, it is anticipated that it will extend in some form the statutory underpin to members who are not currently protected. The protection is likely to extend to qualifying members who have left the scheme since April 2015 as well as active members. This may require employers to provide information on part time hours changes and service break data for active members, and members with a leaving date after 31 March 2015, who are not covered by the current underpin arrangements. The team is liaising with employers highlighting that we may require further data for members and to ensure that they do not dispose of relevant data.

National Fraud Initiative

The Council participates in the National Fraud Initiative. This is a counter-fraud initiative led by Audit Scotland. Mortality Screening exercises are carried out every 6 months.

Tell Us Once (TUO)

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

Internal Dispute Resolution Cases

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

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

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

During the year to 31 March 2020, there were 15 cases.

Reason for Dispute	Number	Decision
Appealing to have deferred benefits paid early due to ill health	3	2 appeal successful 1 appeal pending
Appealing employer's refusal to grant ill health retirement	2	Both appeals successful
Appealing against level of ill health award	9	4 appeals successful 3 appeals unsuccessful 2 appeals pending
Appealing against refusals to pay a Cash Equivalent Transfer Value (CETV)	1	Unsuccessful

Equitable Life

The Fund had an historic AVC arrangement with Equitable Life. On 1st January 2020 Equitable Life policies transferred to Utmost Life and Pensions. The Fund engaged Hymans Robertson to provide recommendations on the options available to the Fund.

Fund Update

Membership details are shown below:-

Member Status	2019-20	2018-19
Active roles	15,679	15,311
Pensioners	13,735	13,151
Deferred role	7,194	7,293
Total	36,608	35,755

Employer Bodies

The fund invested and administered pensions on behalf of 28 current and former employers during 2019-20. 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 51 of the Annual Report and Accounts for the Funds.

Funding Strategy

An actuarial valuation was undertaken as at 31 March 2017 placing a value on the fund's assets and liabilities at that time. It showed there was a pension deficit. At that time, the fund's assets were valued at £2.259bn and the fund's liabilities were valued at £2.431bn, resulting in a funding level of 92.9%. This meant there was a shortfall of assets to the assessed cost of members' benefits of £0.172bn. However, the funding level was higher than the 87.8% funding level as at 31 March 2014. The most recent funding level update from Hymans Robertson (at 31 July 2019) shows a funding level of c97%. The level is likely to be lower relative to that position based on the asset valuation and impact of financial market movements on liabilities.

Future Years

The Pension Fund will continue to face challenges including potential volatility in the investment markets, potential movements in interest rates, legislation changes and advancements in technologies. We are in a strong position to deal with challenges and ensure that the pension fund is managed effectively and we continue to protect members' interests.

Acknowledgements

We would like to thank elected members and officers of the Council for all of their work during 2019-20. The production of the accounts is very much a team effort and again the unaudited accounts were completed before the 30 June deadline, this is of particular significance this year given that all of the team were working remotely as the Council operated in emergency mode in response to COVID19.

Steven Grimmond
Chief Executive

Eileen Rowand MBA CPFA
Executive Director Finance and Corporate Services

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Committee

FIFE PENSION FUND ANNUAL GOVERNANCE STATEMENT

Introduction

The Fife Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded scheme under the terms of the Public Services Pensions Act 2013. Fife Council is the body appointed to act as the Administering Authority for the scheme.

Fife Council, as Administering Authority, has statutory responsibility for the administration of the Local Government Pension Scheme for Fife Council and scheduled and admitted bodies in Fife. This responsibility requires specific governance arrangements and control which sit within Fife Council's overall governance framework.

Pension Fund Responsibilities

The Pension Fund is responsible for ensuring its business is conducted in accordance with the Public Services Pensions Act 2013 which provides the framework for the governance arrangements of public sector pension schemes, including greater regulatory oversight of schemes by the Pensions Regulator.

The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 introduced the new statutory governance framework for Scottish LGPS Funds, setting out the mandatory role of the Scheme Manager (each Administering Authority for the LGPS in Scotland) and the establishment of the national Scheme Advisory Board and local Pension Boards to improve governance arrangements.

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

In discharging this overall responsibility, the Superannuation Fund & Pensions Committee is implementing proper arrangements (known as the governance framework) for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Fife Council approved and adopted a Code of Corporate Governance (the Code) which is consistent with the principles and reflects 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 Pension Governance Group is an officer's group and is chaired by the Head of Finance and meets regularly. It was set up in 2018-19 to review arrangements in line with the governance checklist, developed by Hymans Robertson (Pension Fund Actuary). This allows the Fund to be monitored against the requirements measured by the Pensions Regulator's Code of Practice No.14. Actions are identified and implemented to mitigate and deal with any weaknesses that arise.

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

Purpose of the 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 system of internal control is significant to the management of the risks associated with the Fund. It cannot eliminate elements of risk; neither can it eliminate the potential risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

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

The Fund's Governance Framework

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

Superannuation Fund and Pensions Committee

Delegation

Fife Council delegates pension scheme matters to the Superannuation Fund and 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.

Following a revision of the Fife Council's committee structure in June 2019, the Superannuation Fund and Pensions Sub-Committee became a committee in its own right to enhance the governance and risk arrangements of the Pension Fund and ensure these were adequately addressed.

Terms of Reference

The Committee ensures that there is effective governance 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 Superannuation Fund & Pensions Committee has received training covering investments, governance and an introduction to the LGPS. This training was implemented when the Committee was re-established after the May 2017 elections. A training policy was agreed at the May 2019 Committee meeting which formalises the training arrangements for Committee and Pension Board members. The policy sets out the full training required to ensure members have the appropriate skills to adequately carry out their roles. Induction training was provided to new Committee and Board members. The next stage is to develop a programme detailing the training that should be undertaken.

Training is delivered through several means including external seminars and events, training provided at committee meetings by external advisers and Council Officers and briefing papers.

In September, officers from the Pension Governance Group provided induction training to new members of the Committee and Pension Board. The training covered governance arrangements, investments, LGPS regulations and administration of the scheme.

The officers' Pension Governance Group is responsible for ensuring that roles and responsibilities are allocated and documented in line with the Fund's governance Code of Practice No.14 checklist and to review the risks associated with the fund to ensure all are controlled appropriately.

As a result of the revised Committee arrangements Audit and Risk Management now report matters relating to the Pension Fund to Committee, including providing independent assurance on risk management framework, controls and annual governance processes.

The Committee's Terms of Reference are detailed in Fife Council's List of Committee Powers which can be viewed at: www.fifedirect.org.uk/List of Committee Powers

The Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation of key documents including a Statement of Investment Principles and a Funding Strategy Statement, which can be viewed at www.fifepensionfund.org/Statement of Investment Principles and www.fifepensionfund.org/Funding Strategy Statement. In addition to setting out the Fund's objectives, these documents also detail the controls in place to mitigate the risks facing the Fund.

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 diary which is available at www.fifedirect.org.uk/Committees.

The Fife Pension Board

The 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 Pension 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 [www.fifepensionfund.org/Fife Pension Board Constitution](http://www.fifepensionfund.org/Fife_Pension_Board_Constitution)

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 administering authority; as such has responsibility to ensure appropriate controls are in place to:

- Safeguard the contributions made by employees and employers to provide funds to meet the future liabilities of the Fund's members;
- Ensure control over the investment managers charged with growing the value of the fund to meet the future liabilities; and
- Secure payment to the retired members of the Fund on time and in full.
- Provide annual benefits statements by 31 August in line with the statutory deadline
- Ensure triennial valuations are obtained

In addition the responsibilities also include the following:-

- Responsible for the financial accounting of the Fund;
- Responsible for the preparation of the Pension Fund Annual Report;
- Responsible for implementing the decisions of the Committee and for the day to management of the affairs of the Fund.

Internal Audit provide the required assurance over the controls operated by the Fund.

External Advisers

Hymans Robertson is the Actuary to the Fund and provides advice on Funding, actuarial valuations and development of investment strategy. Although these functions are carried out by same actuary company they are dealt with in different divisions in the company and as such there is clear segregation of functions.

Fife Pension Fund continues in its collaboration arrangement with City of Edinburgh Council for the provision of investment from its arms-length organisation known as Lothian Pension Fund Investment (LPFI). This is the second year of collaboration and officers have continued to participate in the Joint Investment Strategy Panel (JISP).

Investment advice and services are provided by Lothian Pension Fund Investment and two independent Investment Advisers both directly and through the JISP. The JISP meets on a quarterly basis and there is regular dialogue with officer of LPFI outwith these meetings. The Investment Strategy for the Fund is approved by the Superannuation and Pension Fund Committee. Following approval, the Committee delegates responsibility for implementation of the strategy to the Head of Finance, who takes advice from the JISP and the independent advisers before assessing the risk and return and managing the implementation process.

The Fund has appointed investment managers who are employed to invest in assets for the Fund.

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

Fife Council continues to support responsible ownership, and this is recognised in the Statement of Investment Principles. In February 2013, the the Sub-Committee agreed to appoint Hermes Equity Ownership Services, through a framework with Lothian Pension Fund. Hermes helps institutional owners around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes undertakes engagement with businesses on areas of concern and are actively involved in lobbying for improved governance in companies around the world.

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 Pensions Governance Group have carried out the annual review, results of which will be reported to the Committee.

The risk register is reviewed and updated regularly. The risk management manual and the current risk register will be shared with the Committee and the Board on an annual basis and any significant changes will be reported immediately. The register has been updated to include future costs arising from the McCloud Case.

The Fund also produces a breakdown of key administration performance indicators which are included in the Pension Fund Annual Report. Since June 2018 administration performance reports have been presented to the Committee on a quarterly basis.

Internal Audit and Risk Management Service provides the internal audit for Fife Council and the Pension Fund, and operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which apply to Local Government. This was confirmed by their External Quality Assessment report in April 2017. The Internal Audit team undertakes an annual programme of work based on a five-year strategic audit plan, including the Council's roles as both Administering Authority and Scheme Employer.

A governance report in 2017 by Audit and Risk Management gave rise to several agreed actions which have all been implemented.

Coronavirus (COVID19) Pandemic

The first few months of 2020 saw the outbreak of a global pandemic, coronavirus (COVID19) which resulted in the UK and Scottish Governments imposing restrictions through guidance and law on the movement of people with full effect from 23 March 2020. In response to the Government restrictions Fife Council closed all offices to the public and the workforce was enabled to work from home.

All Committee meetings including Superannuation and Pension Fund Committee, were cancelled following the initial lockdown arrangements with decisions being taken by senior officers, as set out in the Council's governance documents. All decisions taken in this manner were recorded and circulated to Group Leaders on a timely basis and posted on the Council's website. Relevant decisions taken also require to be reported to the next relevant meeting of the Committee. Since the summer recess the Superannuation and Pension Fund Committee has taken place on a remote basis.

Breaches of the Law

No breaches had been identified in 2019-20 The Fund's Breaches of the Law policy statement can be viewed at www.fifepensionfund.org

Fife Council pension administration team are regularly subjected to both internal and external audit. The external auditors are appointed by Audit Scotland. An audit opinion is provided separately in the Fund's Annual Report and Accounts.

Risk Management

The Council has reviewed its risk management policy which is now specific to the Fife Pension Fund. This is supported by the pension fund risk register. The fund specific risk register is reviewed by the Pension Governance Group and is subject to regular update.

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

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 (page 17 onwards).

Access to Information

- The Committee agenda papers and minutes can be viewed at www.fifedirect.org.uk/Committees; and
- The Fund's Annual Reports, Governance Statement and all principal documents relating to governance and risk management are available on: www.fifepensionfund.org

The above mentioned documents are also available in hard copy on request.

Governance Arrangements – Future Developments and Improvements

Fife Council is committed to ensuring robust governance.

Following recommendations from a recent Internal Audit report, the officers' Pension Governance Group chaired by the Head of Finance, comprising officers from Finance, HR and Democratic Services, continues to examine the current governance arrangements and to ensure all the necessary controls are in place to safeguard the Pension Fund.

In addition the Fund has agreed to the appointment of an Independent Professional Observer to provide support the Committee. Procurement of this service is underway.

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 2019 to 31 March 2020 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, we will ensure that they are treated as priority and progress towards implementation is reviewed through the governance structures and processes established for the council as administering authority and summarised herein. We will continue to review and enhance, as necessary, our governance arrangements.

Steven Grimmond
Chief Executive

Councillor Dave Dempsey
Convener of the Superannuation Fund and 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 Superannuation Fund and 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 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.		
	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;	Independent professional observers are invited on the Committee on ad hoc basis as agreed at the August 2011 committee.	Yes	
	and			
	iv) expert advisors (on an ad-hoc basis)	Attend 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 offered induction training, including guidance from the Council's Democratic Services Division about their role and responsibilities.	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.	Noted on every Committee agenda paper.	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 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 new training policy has been developed which states that all new members of the Committee are offered training by officers. During the year further training is offered, generally from officers and investment managers of the Fund. In addition, if officers identify other training opportunities which may include attendance at conferences or seminars, then these are offered to the committee as appropriate.	Yes	
		Costs and expenses incurred are met by the Pension Fund.		
5.2	That where such a policy exists, it applies equally to all members of committees, Committees, advisory panels or any other form of secondary forum.	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.	A training policy was developed and approved by Committee to incorporate full training requirements for a member to ensure they have the appropriate skills to fulfil their role. Training is offered on an ad hoc basis as needs are identified and also as appropriate, the policy now recommends a minimum of 2 days per annum. Training is identified from a variety of sources. Members are required to advise of training attended. Monitoring of activities will be undertaken by the Committee The CIPFA Knowledge & Skills Framework Training Needs Analysis has been issued to members to inform ongoing training needs.	Partial	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
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.		
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.	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	

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
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 available on the Council's Pensions website at www.fifepensionfund.org and are included in the Pension Fund Annual Report. Council governance documents are available on the Council website.	Yes	

Steven Grimmond
Chief Executive

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Committee

ACTUARIAL STATEMENT

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2018. In summary, the key funding principles are as follows:-

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 18 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% chance that the Fund will achieve the funding target 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 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £2,259 million, were sufficient to meet 93% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £172 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2018 to 31 March 2021 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 2017 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2017 valuation were as follows:-

Financial Assumptions	31 March 2017
Discount rate	3.5%
Salary increase assumption	2.9%
Benefit increase assumption (CPI)	2.4%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based in line with the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:-

	Males	Females
Current Pensioners	21.2 years	23.8 years
Future Pensioners*	22.6 years	25.8 years

* Currently aged 45.

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from Fife Council, the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the 2019-20 financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Robert Bilton FFA

For and on behalf of Hymans Robertson LLP
1 May 2020

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

REMUNERATION REPORT

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

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

The members of the Superannuation Fund and 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: -

- to make arrangements for the proper administration of the financial affairs of the Fife Pension Fund 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;
- to manage the affairs of the Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets;
- to 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) as amended by the Coronavirus (Scotland) Act 2020 ; and
- to consider the unaudited accounts no later than 31 August and to approve the audited accounts for signing by 26 November.

Signed on behalf of Fife Council

Councillor Dave Dempsey
Convener of the Superannuation Fund and Pensions Committee

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 2020.

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.

2018-19			2019-20
£m		Notes	£m
	Dealings with members, employers and others directly involved in the fund		
(97.414)	Contributions Receivable	6	(100.340)
(2.146)	Transfers in from other pension funds		(2.454)
(99.561)			(102.794)
82.215	Benefits Payable	7	87.700
4.301	Payments to and on Account of Leavers	8	2.675
86.517			90.375
(13.044)	Net (additions)/withdrawals from dealings with members		(12.419)
11.868	Management Expenses	9	16.087
(1.176)	Net (additions)/withdrawals including fund management expenses		3.668
	Returns on investments		
(22.762)	Investment Income	10	(30.070)
0.231	Taxes on income		0.151
(166.377)	(Profit) and losses on disposal of investments and changes in the market value of investments	11a	102.175
(188.908)	Net return on investments		72.255
(190.084)	Net (increase)/decrease in the net assets available for benefits during the year		75.924
2,421.427	Opening net assets of the scheme at 1 April		2,611.511
190.084			(75.924)
2,611.511	Closing net assets of the scheme at 31 March		2,535.587

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 2020.

2018-19			2019-20
£m		Notes	£m
	Investments		
2,613.291	Investment Assets	11b	2,541.470
(0.839)	Investment Liabilities	11b	(2.431)
2,612.452	Total net investments		2,539.039
	Current Assets		
4.069	Contributions due from Employers		1.774
2.161	Cash Balances		1.893
0.192	Debtors	17	0.828
6.422			4.495
	Current Liabilities		
(3.417)	Unpaid Benefits		(3.992)
(3.947)	Other Current Liabilities		(3.955)
(7.363)			(7.947)
(0.941)	Net Current Assets & Liabilities		(3.452)
2,611.511	Net Assets of the fund available to fund benefits at the end of the year		2,535.587

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

The unaudited financial statements were issued on 30 June 2020 and the audited accounts were authorised for issue on 26 November 2020.

Eileen Rowand
Executive Director Finance and Corporate Services

Notes to the Fife Pension Fund Accounts for the year ended 31 March 2020

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.

The following description of the fund is a summary only. For more detail, reference should be made to the Fife Pension Fund Annual Report 2019-20 and the underlying statutory powers underpinning the scheme.

General

The scheme was established under the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

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

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

The fund is overseen by the Superannuation Fund and 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.
- The number of employees in the scheme at 31 March 2019 have been restated to show employee numbers as opposed to employee roles.

Fife Council Pension Fund	31 March 2020	31 March 2019
Number of employers	26	28
Number of employee in scheme		
Fife Council	13,367	13,137
Other employers	2,312	2,174
Total	15,679	15,311
Number of pensioners		
Fife Council	12,560	12,097
Other employers	1,175	1,054
Total	13,735	13,151
Deferred Members	7,194	7,293
Total number of members	36,608	35,755

1 Description of Fund (continued)

Funding

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

Benefits

Prior to 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2009	Service to 31 March 2015	Service post 1 April 2015
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49 x career average salary
Lump Sum	Automatic lump sum of 3 x pension. In addition part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up,	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up,	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up,

2 Basis of Preparation

The statement of the accounts summarises the fund's transactions for the 2019-20 financial year and its position at the year end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 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 2019-20, (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 2015, such as the format of the accounting statements.

b) Accruals

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

c) Valuation of Investments

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

d) Foreign Currency Transactions

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

e) Contributions and Benefits

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

f) Transfer Values

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

g) Investment Income

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

h) Administrative and Investment Management Expenses

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

i) Cash and Cash Equivalents

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

j) VAT

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

k) Taxation

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

3 Statement of Accounting Policies (continued)

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.

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 triennial 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 accept new admissions and Equitable Life policies transferred to Utmost during 2019-20 and no longer accept 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

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 16.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return

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

2018-19		2019-20
£m		£m
(18.754)	Employees' Contributions	(19.418)
	Employers' Contributions	
(75.901)	Normal contributions	(78.790)
(2.759)	Augmentation contributions	(2.132)
(78.661)	Total employers' contributions	(80.922)
(97.414)		(100.340)

By authority

2018-19		2019-20
£m		£m
(82.751)	Fife Council	(85.599)
(6.494)	Scheduled bodies	(6.450)
(8.169)	Admitted bodies	(8.291)
(97.414)		(100.340)

7 Benefits Payable

By Category

2018-19		2019-20
£m		£m
62.315	Pensions	66.265
17.516	Lump sum retirement benefits	19.072
2.385	Lump sum death benefits	2.363
82.215		87.700

By authority

2018-19		2019-20
£m		£m
74.583	Fife Council	78.709
3.097	Scheduled bodies	3.835
4.535	Admitted bodies	5.155
82.215		87.700

8 Payments to and on Account of Leavers

2018-19		2019-20
£m		£m
0.273	Refunds to members leaving service	0.230
0.001	State Scheme Premiums	0.003
	Transfers to other Schemes	
4.027	Individuals	2.442
4.301		2.675

9 Management Expenses

2018-19		2019-20
£m		£m
1.978	Administrative costs	1.926
9.498	Investment management expenses	13.512
0.392	Oversight and governance costs	0.649
11.868		16.087

Included in the oversight and governance costs is the external audit fee of £0.036m (£0.035m 2018-19)

9a Investment Management Expenses

2018-19		2019-20
£m		£m
7.105	Management fees	8.102
1.128	Performance related fees	1.387
0.340	Custody fees	0.484
0.925	Transaction costs	3.539
9.498		13.512

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. Details are disclosed in Notes 9 and 9a of the accounts. Transaction costs for 2019-20 are reported as £3.539m (2018-19 £0.925m). The increase represents an increase in costs for CBRE reflecting the work they have completed this year. There is also an increase in costs reported for Baillie Gifford. Participation in the Cost Transparency Initiative and completion of templates has highlighted costs that were not previously disclosed or reported.

10 Investment Income

2018-19		2019-20
£m		£m
(5.815)	Fixed interest securities	(5.919)
(4.331)	Equity dividends	(5.962)
(8.656)	Pooled property investments	(12.388)
(2.283)	Pooled investments-unit trusts and other managed funds	(2.194)
0.000	Private equity	(1.490)
(0.829)	Interest on cash deposits	(0.837)
(0.848)	Securities Lending	(1.282)
0.000	Broker commissions recaptured	0.000
(22.762)		(30.070)

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.

2019-20	Value at 1 April 2019	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2020
	£m	£m	£m	£m	£m
Fixed interest securities	260.380	40.703	(39.300)	8.281	270.064
Equities	644.113	248.532	(238.393)	70.839	725.091
Pooled Investments	1,286.292	42.150	(37.408)	(180.041)	1,110.992
Pooled Property Investments	229.789	12.492	(9.188)	(15.995)	217.098
Private Equity/Infrastructure	50.451	48.298	(3.575)	9.074	104.249
	2,471.024	392.174	(327.864)	(107.841)	2,427.493
Derivative contracts:					
Futures	(0.155)	9.366	(7.786)	(1.590)	(0.165)
Purchased/written options	0.000	0.000	0.000	0.000	0.000
Forward currency contracts	0.057	1.867	(1.948)	(0.351)	(0.374)
	2,470.927	403.407	(337.598)	(109.783)	2,426.954
Other investment balances	0.155			0.801	0.166
Cash deposits	139.572			0.169	110.668
Amount receivable for sales of investments	0.000			0.000	0.244
Investment income due	2.400			0.000	2.695
Amount receivable for pending spot FX	(0.000)			(0.022)	(0.002)
Amount payable for purchases of investments	(0.601)			0.031	(1.685)
Total Investment Assets	2,612.452			(108.804)	2,539.039

Trading gains and market value movements accounted for £102.175m per the Fund Account. This is different to the £108.804 reported above. The reason for this difference is £6.630m of indirect management expenses which have been included within note 9 to the accounts

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

2018-19	Value at 1 April 2018	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2019
	£m	£m	£m	£m	£m
Fixed interest securities	248.750	33.903	(28.200)	5.926	260.380
Equities	601.823	100.363	(147.570)	89.497	644.113
Pooled Investments	1,169.549	57.032	(1.572)	61.283	1,286.292
Pooled Property Investments	212.702	20.558	(5.963)	2.492	229.789
Private Equity/Infrastructure	38.979	13.201	(4.307)	2.578	50.451
	2,271.803	225.057	(187.611)	161.775	2,471.024
Derivative contracts:					
Futures	(0.144)	5.434	(5.219)	(0.227)	(0.155)
Purchased/written options	0.000	0.000	0.000	0.000	0.000
Forward currency contracts	0.019	0.760	(0.323)	(0.398)	0.057
	2,271.679	231.251	(193.153)	161.151	2,470.927
Other investment balances	0.148			0.108	0.155
Cash deposits	152.748			0.474	139.572
Amount receivable for sales of investments	1.754			(0.009)	0.000
Investment income due	2.474			0.000	2.400
Amount receivable for pending spot FX	(0.001)			(0.297)	(0.000)
Amount payable for purchases of investments	(4.003)			0.008	(0.601)
Total Investment Assets	2,424.800			161.435	2,612.452

Trading gains and market value movements accounted for £166.377m per the Fund Account. This is different to the £161.435 reported above. The reason for this difference is £4.942m of indirect management expenses which have been included within note 9 to the accounts

11b Analysis of Investments

2018-19		2019-20
£m		£m
	Fixed Interest Securities	
	United Kingdom	
87.622	Public sector	98.496
40.226	Other	40.101
	Overseas	
2.196	Public sector	1.822
40.495	Other	42.228
170.540		182.647
	Equities	
18.136	United Kingdom - Quoted	9.217
625.977	Overseas - Quoted	715.874
644.113		725.091
	Index Linked Securities	
89.840	United Kingdom - Public Sector	87.417
0.000	Overseas - Public Sector	0.000
89.840		87.417
	Pooled Investment Vehicles	
	United Kingdom	
939.898	Unit Trusts - Equity	784.265
85.512	Unit Trusts - Fixed Income	91.234
	Overseas	
256.655	Unit Trusts - Equity	235.493
1.328	Cash Funds	0.000
1,283.392		1,110.992
	Pooled Property Investments	
227.016	United Kingdom	214.250
2.773	Overseas	2.848
229.789		217.098
	Private equity/infrastructure	
50.451	Venture Capital	104.249
50.451		104.249
	Other Investments	
2.900	Overseas	0.000
2.900		0.000
	Investment assets	
0.141	Derivative assets	0.203
139.572	Cash & Cash equivalents	110.668
0.155	Other investment assets	0.166
2.400	Investment income due	2.695
0.000	Amounts receivable from sales	0.244
142.267		113.977
	Investment liabilities	
(0.238)	Derivative liabilities	(0.743)
	Other investment liabilities	(0.002)
(0.601)	Amounts payable for purchases	(1.685)
(0.839)		(2.431)
2,612.452	Total	2,539.039

11c Investments Analysed by Fund Manager

Market Value 31 March 2019			Market Value 31 March 2020	
£m	%		£m	%
		Fund Mangers		
726.580	27.81	Baillie Gifford	785.697	30.94
173.935	6.66	Henderson Global Investors	183.114	7.21
176.010	6.74	Western Asset Management	181.882	7.16
462.236	17.69	Blackrock Investment Management (UK) Ltd	557.255	21.95
187.484	7.18	Lazard Asset Management	0.000	0.00
474.741	18.17	State Street Global Advisors	401.347	15.81
58.559	2.24	Partners Group	60.152	2.37
0.000	0.00	Other Infrastructure Managers	23.314	0.92
239.190	9.16	CBRE Global Investors	234.359	9.23
0.000	0.00	Private Debt	21.987	0.87
2,498.735	95.65		2,449.105	96.46
		Money Market Funds		
1.328	0.05	Aberdeen Standard Liquidity Fund	0.000	0.00
112.389	4.30	Northern Trust Money Market Fund	89.934	3.54
2,612.452	100.00		2,539.039	100.00

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

Market Value 31 March 2019			Market Value 31 March 2020	
£m	%		£m	%
462.234	17.69	Aquila Life UK Equity Index Fund, managed by Blackrock Investment Management (UK) Ltd	376.094	14.81
256.655	9.82	Baillie Gifford Diversified Growth Fund, managed by Baillie Gifford	235.493	9.27
474.741	18.17	MPF Fundamental Index Global Equity Fund, managed by State Street Global Advisors	401.347	15.81

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 £80.243m (31 March 2019 £157.346m). 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 £85.906m (31 March 2019 £164.321m) representing 107.1% of stock lent. Collateral consists of acceptable securities and government debt.

2018-19		2019-20
£m		£m
52.524	Bonds	49.226
104.822	Equities	31.017
157.346		80.243

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:

2019-20	Expires	Economic Exposure	Assets £m	Liabilities £m
Fixed Income Futures				
Overseas fixed interest	one year	2.152	0.178	
UK fixed interest	one year	(0.409)	0.009	
Overseas fixed interest	one year	(3.847)		(0.352)
		(2.104)	0.187	(0.352)

2018-19	Expires	Economic Exposure	Assets £m	Liabilities £m
Fixed Income Futures				
Overseas fixed interest	one year	4.512	0.082	
UK fixed interest	one year	0.000		
Overseas fixed interest	one year	(8.254)		(0.237)
		(3.741)	0.082	(0.237)

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	1.509	EUR	(1.743)	0.002	(0.037)
One to six months	GBP	6.810	USD	(8.826)	0.010	(0.311)
One to six months	USD	2.488	GBP	(2.042)	0.005	(0.042)
Open forward currency contracts at 31 March 2020					0.016	(0.391)
Net forward currency contracts at 31 March 2020						(0.374)
Prior Year Comparative						
Open forward currency contracts at 31 March 2019					0.058	(0.001)
Net forward currency contracts at 31 March 2019						0.057

13 Fair Value - Basis of Valuation

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

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

13 Fair Value - Basis of Valuation (continued)

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 outbreak of the Coronavirus (COVID19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date the fund property valuer consider that the Fund can attach less weight to the previous market evidence for comparison purposes, to inform opinions of value. The current response to COVID19 means that they are faced with unprecedented set of circumstances on which to base judgement.

Valuations are therefore reported based on "material valuation uncertainty" as per VP3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution – are attached to the valuation of the Funds'; investment property assets than would normally be the case. Given the unknown future impact that COVID19 might have the valuation of the Funds' properties will be kept under review.

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.

The reduced activity in private markets towards the end of 2019/20 resulted in a reduced level of transactions on which to base valuations. Fund managers followed the same valuation processes and procedures as previous years. However, many have had to make greater use than previously of fair value adjustments to earlier valuations to establish valuations as at the 31 March. The input used include public market movements, general partner estimates and company specific considerations. The fair value adjustments applied in previous years.

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 2020	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Investment assets at fair value	1,623.024	646.374	269.642	2,539.039
	1,623.024	646.374	269.642	2,539.039

Values at 31 March 2019	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Investment assets at fair value	1,740.663	691.235	180.554	2,612.452
	1,740.663	691.235	180.554	2,612.452

13b Reconciliation of Fair Value Measurements within Level 3

	Market value 1 April 2019	Transfers into Level 3	Transfers out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/ (losses)	Realised gains/ (losses)	Market value 31 March 2020
	£m	£m	£m	£m	£m	£m	£m	£m
Overseas Property Funds	2.773	0.000	0.000	0.000	0.000	0.075	0.000	2.848
Overseas Venture Capital	50.451	0.000	0.000	33.598	(3.263)	7.682	0.184	88.654
UK Fixed Income	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
UK Property Funds	127.330	32.265	0.000	8.934	(4.066)	(5.951)	(3.444)	155.068
Overseas Equities	0.000	0.000	0.000	1.026	0.000	(0.373)	0.000	0.653
UK Equities	0.000	2.994	0.000	3.854	0.000	(0.024)	0.000	6.824
UK Venture Capital	0.000	0.000	0.000	14.700	(0.312)	1.208	0.000	15.595
	180.554	35.260	0.000	62.113	(7.641)	2.616	(3.260)	269.642

14 Classification of Financial Instruments

31 March 2019				31 March 2020		
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			
260.380			Fixed Interest Securities	270.064		
644.113			Equities	725.091		
1,286.292			Pooled Investments	1,110.992		
229.789			Pooled Property Investments	217.098		
50.451			Private Equity-Infrastructure	104.249		
0.141			Derivative contracts	0.203		
	139.572		Cash		110.668	
0.155	2.400		Other Investment balances	0.166	2.695	
	0.000		Debtors		0.244	
2,471.320	141.971	0.000		2,427.862	113.608	0.000
			Financial Liabilities			
		(0.238)	Derivative contracts			(0.743)
			Other Investment balances			(0.002)
		(0.601)	Creditors			(1.685)
0.000	0.000	(0.839)		0.000	0.000	(2.431)
2,471.320	141.971	(0.839)	Total	2,427.862	113.608	(2.431)
2,612.452			Grand Total	2,539.039		

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 Superannuation Fund and Pensions committee, is detailed in the Statement of Investment Principles at Appendix A of this Report.

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

Currency Risk

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

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

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

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

The tables below summarise the fund's currency exposure as at 31 March 2020 and 31 March 2019 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 2020	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
Overseas Equities	715.874	787.461	644.286
Overseas Unit Trusts	235.493	259.043	211.944
Overseas public sector bonds (quoted)	1.822	2.004	1.640
Overseas corporate bonds (quoted)	42.228	46.451	38.005
	995.417	1,094.959	895.876

Market Risk - currency risk 31 March 2019	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
Overseas Equities	625.977	688.574	563.379
Overseas Unit Trusts	256.655	282.321	230.990
Overseas public sector bonds (quoted)	2.196	2.416	1.977
Overseas corporate bonds (quoted)	40.495	44.544	36.445
	925.323	1,017.855	832.791

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 - other price risk 31 March 2020	Duration (years)	Asset Values assumed	Asset Value on increase of 1%	Asset Value on decrease of 1%
		£m	£m	£m
Asset Type				
Fixed Interest Securities				
UK public sector (quoted)	14.86	98.496	83.859	113.134
UK corporate (quoted)	7.91	40.101	36.930	43.272
Overseas public sector (quoted)	15.02	1.822	1.548	2.096
Overseas corporate (quoted)	7.48	42.228	39.071	45.385
UK public sector index linked	22.97	87.417	67.337	107.496
Cash & cash equivalents				
Cash		110.668	111.775	109.561
Total		380.732	340.520	420.944

Market Risk - other price risk 31 March 2019	Duration (years)	Asset Values assumed	Asset Value on increase of 1%	Asset Value on decrease of 1%
		£m	£m	£m
Asset Type				
Fixed Interest Securities				
UK public sector (quoted)	13.76	87.622	75.564	99.681
UK corporate (quoted)	8.35	40.226	36.869	43.584
Overseas public sector (quoted)	19.82	2.196	1.761	2.632
Overseas corporate (quoted)	7.94	40.495	37.277	43.712
UK public sector index linked	23.01	89.840	69.165	110.515
Cash & cash equivalents				
Cash		139.572	140.967	138.176
Total		399.951	361.603	438.300

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 - interest rate risk 31 March 2020	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
Asset Class					
UK Equities	27.50	15.44	392.100	499.928	284.273
Global Equities	28.00	44.00	1,117.200	1,430.016	804.384
Infrastructure	20.10	3.25	82.600	99.203	65.997
Property	14.20	8.55	217.100	247.928	186.272
Corporate Bonds (short term)	5.00	1.01	25.600	26.880	24.320
Corporate Bonds (medium term)	9.80	3.66	93.000	102.114	83.886
Corporate Bonds (long term)	11.60	1.75	44.500	49.662	39.338
fixed gilts (short term)	2.30	0.65	16.400	16.777	16.023
fixed gilts (medium term)	7.60	1.24	31.500	33.894	29.106
fixed gilts (long term)	10.50	2.43	61.800	68.289	55.311
UK index linked gilts (short term)	4.10	0.17	4.400	4.580	4.220
UK index linked gilts (medium term)	7.40	0.88	22.300	23.950	20.650
UK index linked gilts (long term)	9.30	2.40	60.900	66.564	55.236
Cash	0.30	4.43	112.600	112.938	112.262
Absolute Return/Diversified Growth	13.80	9.27	235.500	267.999	203.001
Commodities	0.00	0.00	0.000	0.000	0.000
Private Debt	7.20	0.85	21.600	23.155	20.045
		100.00	2,539.100	3,073.877	2,004.323

Market Risk - interest rate risk 31 March 2019	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
Asset Class					
UK Equities	16.60	18.50	483.300	563.528	403.072
Global Equities	16.90	42.13	1,100.700	1,286.718	914.682
Infrastructure	20.10	1.93	50.500	60.651	40.350
Property	14.30	8.80	229.800	262.661	196.939
Corporate Bonds (short term)	4.40	0.79	20.600	21.506	19.694
Corporate Bonds (medium term)	10.50	3.33	87.000	96.135	77.865
Corporate Bonds (long term)	12.80	1.71	44.800	50.534	39.066
fixed gilts (short term)	3.20	0.55	14.300	14.758	13.842
fixed gilts (medium term)	9.70	1.13	29.500	32.362	26.639
fixed gilts (long term)	12.90	2.25	58.700	66.272	51.128
UK index linked gilts (short term)	4.10	0.29	7.700	8.016	7.384
UK index linked gilts (medium term)	7.20	0.71	18.500	19.832	17.168
UK index linked gilts (long term)	9.20	2.44	63.700	69.560	57.840
Cash	0.50	5.50	143.800	144.519	143.081
Absolute Return/Diversified Growth	12.50	9.83	256.700	288.788	224.613
Commodities	16.10	0.11	2.900	3.367	2.433
		100.00	2,612.500	2,989.207	2,235.793

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 Fund Asset Value at 31 March 2020 was £2.539bn. The 1 year weighted average volatility was 16.6% at 31 March 2020, meaning the 'value on increase' would be £2.961bn and the 'value on decrease' would be £2.118bn.

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 2017 by Hymans Robertson and the actuarial statement, including assumptions made in the calculations, is contained in this Annual Report

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
2018-19	24.50%
2019-20	24.50%
2020-21	24.50%

The actuary also undertakes a valuation to present the value of promised retirement benefits, an equivalent calculation which shows employers' future liability to pay pensions earned at the balance sheet date, in accordance with IAS19. It is essentially a snapshot which captures the liability at a specific point in time only and should not be used for comparing against liability measures on a funding basis. The liabilities have been projected using a roll forward from the latest formal fund triennial valuation at 31 March 2017, with no allowance for future unfunded benefits.

	31 March 2019	31 March 2020
	£m	£m
Present Value of Promised Retirement Benefits	3,404.000	3,048.000

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 2019	31 March 2020
	%	%
Inflation / pension increase rate	2.50	1.90
Salary Increase rate	3.00	2.30
Discount rate	2.40	2.30

Demographic assumptions

	Males	Females
Future life expectancies assumed in the calculation		
Current Pensioners	20.5	23.0
Future Pensioners	21.6	24.6

Sensitivity Analysis

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

Change in assumptions at 31 March 2020	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	10%	287
0.5% increase in the Salary Increase Rate	2%	49
0.5% increase in the Pension Increase Rate	8%	234

17 Analysis of Debtors

2018-19		2019-20
£m		£m
0.115	Central Government	0.279
0.077	Other Debtors	0.549
0.192		0.828

18 Additional Voluntary Contributions (AVC)

2018-19 Contributions	Fund Value 31 March 2019		2019-20 Contributions	Fund Value 31 March 2020
£m	£m		£m	£m
0.138	1.089	Standard Life	0.112	1.001
1.102	3.426	Prudential	1.048	3.944
0.000	0.117	Clerical Medical	0.000	0.091
0.000	0.085	Utmost	0.008	0.092
1.240	4.716		1.168	5.128

19 Related Party Transactions

Fife Council, the administering authority of the fund, also provides support services for the fund and in 2019-20 charged £1.698m (2018-19 £1.795m) for those services.

Fife Council paid employers' contributions to the Pension Fund of £69.328m (2018-19 £67.150m) and collected and paid over employees's contributions of £16.270m (2018-19 £15.601m)

Governance

All members of both the Superannuation Fund and 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 to key management personnel is set out below:

2018-19		2019-20
£m		£m
0.268	Salary, fees & Allowances	0.277
0.268		0.277

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

2018-19		2019-20
£m		£m
0.066	In year employer's pension contributions	0.068
	Accrued Pension Benefits	
0.114	Pension	0.122
0.199	Lump Sum	0.205

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 was one post balance sheet event which requires disclosure. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

COVID-19 The COVID-19 pandemic has, and will continue to have, major implications worldwide. The UK lockdown commenced on 23 March 2020, just one week prior to the financial year end and investment values for the Fife Pension Fund at the balance sheet date of 31 March 2020 have been impacted as a result. The current market volatility and reduction in asset values for the Fund are not expected to be material to the current investment strategy given the Fund's long term focus and the fund will not seek to make any significant changes to contribution rates for long-term employers for COVID reasons alone at this stage. The outbreak of COVID19 is not considered to be an adjusting event.

21 Contingent Assets and Liabilities

At 31 March 2020 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 by not yet adopted.

Accounting Standards not yet adopted are:-

- Amendments to IAS 28 Investments in Associates and Joint Ventures:
Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

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 during 2019-20 is as follows: -

Scheduled Bodies

Fife Council
Fife College (formerly Adam Smith and Carnegie Colleges)
Visit Scotland
Police College
Scottish Police Authority (for former support staff of Fife Constabulary and new support staff based in the Fife area)
Scottish Fire & Rescue Service (for former support staff of Fife Fire & Rescue Service and new support staff based in the Fife area)

Admitted Bodies

St Andrews Links Trust
Fife Housing Group
Citizens Advice & Rights Fife
Home-Start Levenmouth
Business Gateway Fife
Drug & Alcohol Project
Fife Intensive Rehabilitation & Substance Misuse Team (FIRST)
The Clued-Up Project
Fife Historic Buildings Trust
Forth & Oban
Fife Sport & Leisure Trust
Fife Coast & Countryside Trust
Fife Women's Aid
Fife Golf Trust
Fife Cultural Trust
Scotland's Rural College (SRUC)
Fife Resource Solutions
Poppyview Family Centre
St Andrews Botanic Garden
Sodexo

Changes in Membership

Fife Alcohol Support Service ceased participating in the Fund on 1st July 2019.
Fife Gingerbread ceased participating in the Fund on 1 January 2020.

FIFE PENSION FUND**STATEMENT OF INVESTMENT PRINCIPLES****1. Introduction**

- 1.1 This Statement of Investment Principles (**SIP**) was agreed by the Superannuation and Pensions Sub-Committee (**Committee**) of Fife Council (**FC**) on 27 November 2019. 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 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.

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.
- 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 external investment advisers.
- 2.3 Responsibility for implementing the strategy is 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.
- 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.

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. (Legal view on fiduciary duty issued by the 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 Funds). 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 Funds and partners. External Finance and Corporate Services should, therefore, be used where internal Finance and Corporate Services 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 Finance and Corporate Services 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 that 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 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 asset classes 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.
- 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, 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 Funds' interest to take its responsibilities as institutional asset owners seriously. To this end, the Funds' approach to responsible investment centers 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 Funds' 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 Another key strand of the Funds' 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.
- 4.4 To ensure that these issues are addressed appropriately, the Fund uses a specialist third party, Hermes EOS, to assist with voting and engagement activities for the shares that it holds.
- 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 FRC'S UK Stewardship Code, and encourage it's appointed asset managers to do so too. Details of adherence to the Code are provided in Appendix B.

5. Fund's Objectives

- 5.1 The **primary objectives** 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 each Fund's investment strategy, and governs the allocation across various asset classes.
- 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 Funds' 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.
 - **Gilts** are debt instruments issued by the UK Government. Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some gilts provide interest payments and capital repayment value that is directly linked to price inflation (the Retail Price Index (RPI)). These are known as **Index Linked Gilts** and they provide the closest match to the Funds' liabilities, most of which are inflation-linked. Some other governments also issue this type of debt, but in different currencies tied to price inflation in their own countries.
 - **Non-Gilt Debt** instruments are issued by a range of borrowers to finance their activities in various sectors of the economy, which means that they carry varying degrees of credit risk. Income is provided through interest, which is typically paid to the lender on a regular basis until the loan capital is repaid, generally at par by the issuer at a pre-determined date. Bonds can pay a fixed, variable or inflation-linked rate of interest. Bonds are listed in the UK or overseas, or are unlisted (private debt).
 - **Other Real Assets** are typically investments in a share of income and capital appreciation of tangible assets, including **property** (land and/or buildings for commercial or residential use), **infrastructure** (assets deemed essential to the orderly functioning of daily life, such as renewable energy generation and transmission assets, water utilities, airports and toll roads) and **timberlands**. Income comes from dividends and rents.
 - **Cash** is also a form of investment used to provide instant or short-term liquidity, and can be held in both sterling and foreign currencies (including Treasury Bills, Money Market Funds and Secured Investments). Cash generates interest income, but typically a lower rate than bonds and other debt.
- 5.6 As the returns of the above investments are not completely correlated, the Funds expect to achieve diversification and better risk-adjusted returns by investing in assets from each policy group.

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 (or asset classes). 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 Fund.
- 6.2 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.
- 6.3 The Funds' investment strategy is measured against strategy-specific benchmarks by an independent performance measurement specialist, and these are reported to Committee 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 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.
- 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 credit-worthiness 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 Funds are 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 will review 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 (27 November 2019)

FIFE PENSION FUND: INVESTMENT STRATEGY

Investment Objectives: to achieve a return of at least gilts +2.4% per annum and generate sufficient cash to pay pensions as they fall due.

Policy Group	Current Target 1 Dec 2018	Target Weight 2019-24	Permitted Range	Long Term Expected Return
Equities	60%	50%	40% - 65%	Gilts + 3.5% pa
Real Assets	10%	20%	10% - 30%	Gilts + 2.5% pa
Non-Gilt Debt	15%	15%	5% - 25%	Gilts + 1.0% pa
Gilts	15%	15%	0% - 20%	Gilts + 0.0% pa
Cash	0%	0%	0% - 10%	n/a
Total	100%	100%		Gilts +2.4% pa

THE FIFE PENSION FUND AND THE MYNERS PRINCIPLES

	Principle	Arrangements in Place
1	<p>Effective Decision Making</p> <p>Administering authorities should ensure that:-</p> <p>Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</p> <p>Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflict of interest.</p>	<p>Responsibility for the strategic management of the Fund is delegated to the Superannuation Fund & Pensions Committee of the Council.</p> <p>Hymans Robertson LLP is appointed as the Council's actuaries and investment advisers. In addition, the Council has entered into a collaboration arrangement for investment advice with Lothian Pension Fund Investment. This arrangement provides support to the Head of Finance to allow consideration and informed decision making. Officers are members of the Joint Investment Strategy Panel (JISP). Independent advisors are also members of the panel.</p> <p>Regulation permits the appointment of suitably qualified investment managers to make investment decisions on behalf of the administering authority.</p> <p>The Executive Director Finance and Corporate Services provides the committee with officer support.</p> <p>Training is regularly offered and undertaken from varied and appropriate sources e.g. the Employer Organisation, consultants and fund managers as they arise.</p>
2	<p>Clear Objectives</p> <p>An overall investment objective should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</p>	<p>A Funding Strategy is approved by the committee and is reviewed regularly.</p> <p>Out performance of customised benchmarks are included within investment manager agreements.</p>

3	<p>Risk and Liabilities</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>A triennial actuarial valuation is carried out by the Fund's actuaries and the results and impact of this are considered when reviewing the investment strategy of the fund.</p>
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	Principle	Arrangements in Place
4	<p>Performance Assessment</p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p>	<p>Independent performance measurement of the fund assets and the fund managers is carried out by Northern Trust. Performance of the fund is also reviewed and reported regularly to committee by LPFI</p> <p>During the term of each committee, a full review of the investment management arrangements is considered and progressed as and if appropriate.</p> <p>Information on attendance at trainings is provided annually to the committee for review.</p>
5	<p>Responsible Ownership</p> <p>Administering authorities should:- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</p> <p>Include a statement of their policy on responsible ownership in the statement of investment principles.</p> <p>Report periodically to scheme members on the discharge of such responsibilities.</p>	<p>Hermes Equity Ownership Services (HEOS) has been appointed to assist the Fund in meeting its fiduciary responsibilities in the areas of engagement and voting.</p> <p>All investment managers have confirmed compliance with the Stewardship Code or explained their alternative strategy. HEOS also engages with the investment managers and companies in which the Fund invests.</p> <p>The Fund's Statement of Investment Principles (SIP), outlines that managers must consider socially responsible investment issues as part of their investment strategy.</p> <p>Regular reports are presented to committee demonstrating appropriate actions taken.</p>

<p>6</p>	<p>Transparency and Reporting</p> <p>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.</p> <p>Provide regular communication to scheme members in the form they consider most appropriate.</p>	<p>An annual report and statement is provided to all Fund members.</p> <p>An annual meeting is held for employers.</p> <p>The Pension Fund Annual Report is made available on the Fife Pension Fund website (www.fifepensionfund.org)</p>
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FIFE PENSION FUND COMMUNICATION POLICY

(May 2020)

Introduction

Fife Pension Fund provides pension administration and investment services for Fife Council employees and employees of participating employers within Fife.

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

A 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:

- Factual and presented in plain language.
- Designed to meet the needs of each target audience.
- Use the most efficient and effective means of delivery.

Key Audiences

The Fund has identified the following distinct groups with whom it needs to communicate with. They are:

- Scheme members.
- Scheme employers.
- Prospective scheme members and employers.
- Trade Unions.
- Superannuation and Pensions Committee and the Fife Pension Board.

Communication Tools and Strategy

The following section outlines how the Fund communicates with each group.

Active Scheme members – currently contributing to the Scheme

Member Self Service (MSS)

Member Self Service was introduced in 2016. Through a secure website this application allows members to access and edit personal information, and view financial information, held on their pension records.

Accessible from work or home PCs the site is also available on mobile devices such as smart phones, tablets and laptops.

Once registered, a member can

- Update personal information
- View scheme membership and financial details
- Run estimated benefit calculations for different types of retirement
- Access annual benefit statements
- Access publications such as scheme guides, newsletters and factsheets

By post

- A letter confirming scheme membership to every new entrant.
- On request, communications can be provided in alternative formats including Braille, translation and audio.
- Correspondence relating to members' benefits.

In person/phone

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

Email/Website

- Dedicated email address for queries and enquiries.
- Email used to receive and send correspondence where appropriate.
- On 31st August 2018, the Pensions Team launched the Fife Pension Fund website. The website, which can be found at www.fifepensionfund.org provides an extensive range of up to date scheme literature including scheme guides, leaflets and forms. The site also holds policy statements, governance documents, valuation and annual reports.
- Website has links to other useful websites including www.scotlgps2015.org which provides full details on the current LGPS effective from 1st April 2015.
- Newsletters updating members about scheme changes.
- Global emails promoting the scheme and highlighting specific areas e.g. pension scheme changes

Pensioner Members – those receiving a pension from the Fund

By post

- Correspondence relating to members' benefits.
- On request, communications can be provided in alternative formats including Braille, translation and audio.
- Payslip once a year detailing the annual pension increase.
- Annual newsletter.

In person/phone

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

Email/Website

- Dedicated email address for queries and enquiries.
- Email used to receive and send correspondence where appropriate.
- The website at www.fifepensionfund.org provides an extensive range of up to date scheme literature for pensioner members including scheme guides, leaflets and policies.

Deferred Members – no longer actively contributing to the scheme but have left their benefits in the Fund

Member Self Service (MSS)

Member Self Service has been rolled out to deferred members.

Once registered, a deferred member can

- Update personal information
- View scheme membership and financial details
- Run estimated benefit calculations for different types of benefits
- Access annual benefit statements
- Access publications such as scheme guides, newsletters and factsheets

By post

- Correspondence relating to members' benefits.
- On request, communications can be provided in alternative formats including Braille, translation and audio.

In person/phone

- One-to-one meetings.
- Contact telephone numbers publicised in scheme literature.

Email/Website

- Dedicated email address for queries and enquiries.
- Email used to receive and send correspondence where appropriate.
- Website providing an extensive range of up to date scheme literature including scheme guides, leaflets and policies.

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.
- Statutory 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.

Prospective Members

The Pension Team works closely with employers to promote the benefits of the scheme to new employees and to those who have previously opted out.

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.

Superannuation and Pensions Committee and the Fife Pension Board

The Committee and Board members receive directly all meeting papers. The sub-Committee comprises 9 elected members. Details of the meetings 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.

Development Priorities

A key priority is to improve the digital delivery of our communications. The Pension Team works closely with Hymans Robertson to enhance the website. Hymans Robertson created, and continues to administer, the website for Fife Pension Fund.

The team is working on rolling out Member Self Service to all our pensioner members. This will allow pensioner members to view their monthly pension payments, change bank details and view P60s.

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 using the contact details below.

Contact Details

Fiona Clark
Fife Pension Fund
Fife Council
Rothesay House
Rothesay Place
GLENROTHES
Fife KY7 5PQ

Opening Times: Monday to Friday 8.30 am to 5.00 pm
Telephone: 03451 55 55 55 Ext 440896
Email: pensions.section@fife.gov.uk
Website: www.fifepensionfund.org

FIFE PENSION FUND - FUNDING STRATEGY STATEMENT

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Fife Council Pension Fund (“the Fund”), which is administered by Fife Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2018.

1.2 What is the Fife Council Pension Fund?

The Fund is part of the Scottish Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole country. The Administering Authority runs the Fife Council Pension Fund, in effect the LGPS for the Fife Council area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the various LGPS Regulations applicable to Scotland. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Funding Strategy Statement - Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for a Funding Strategy Statement, as given in Funding Strategy Statement - Appendix A.

The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations applicable in Scotland;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions and cessations;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: you will want to know how your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In Section 5 we outline the purpose and nature of the Scottish Public Pensions Agency's oversight of LGPS valuations.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Laraine Cunningham in the first instance at e-mail address Laraine.Cunningham@fife.gov.uk or on telephone number 03451 555 555 and when prompted enter Ext 440897.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Funding Strategy Statement - Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Funding Strategy Statement - Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Funding Strategy Statement - Appendix D. Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: colleges, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Funding Strategy Statement - Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Funding Strategy Statement - Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which colleges and universities pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments over the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Funding Strategy Statement - Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Community Admission Bodies		Transferee Admission Bodies
Sub-type	Fife Council	Police, Fire, Colleges etc	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Funding Strategy Statement - Appendix E)		Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Funding Strategy Statement - Appendix E)
Primary rate approach	(see Funding Strategy Statement - Appendix D – D.2)				
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	18 years	18 years	Lower of future working lifetime or remaining contract period		
Secondary rate – Note (d)	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority			Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	66%	70%	75%	80%	75%
Phasing of contribution changes Note (f)	Covered by stabilisation arrangement	3 years	3 years	3 years	None
Review of rates – Note (g)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Reviewed annually by request in last 3 years of contract
New employer	n/a	n/a	Note (g)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs closed to new entrants)

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2017 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Fife Council
Max cont increase per year	+0.9% of pay each year
Max cont decrease per year	-0.9% of pay each year

The stabilisation criteria and limits will be reviewed at the 31 March 2020 valuation, to take effect from 1 April 2021. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2018 for the 2017 valuation). The Administering Authority would normally expect the same end point to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where an employer closed to new entrants over the inter-valuation period.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Funding Strategy Statement - Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers;
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

Note (g) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted which will increase the funding target and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (h) (New Admission Bodies)

All new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond, as set out in the LGPS Regulations. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, or the Scottish or UK Government, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option, the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit. This is also referred to as a “pass-through” arrangement.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to its own decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required;
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Funding Strategy Statement - Appendix E; or

- (c) Again, depending on the nature of the guarantee, it may be possible to simply pool the former Admission Body's liabilities and assets with the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible, then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilt's cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2017 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

3.5 Those employers which have been pooled are identified in the Rates and Adjustments Certificate. Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;

- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2009 and April 2015). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread over a variety of time periods depending on the employer.

3.7 Ill health early retirement costs

Admitted Bodies may have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If this approach is adopted and the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Otherwise the charge will be calculated on an individual basis as each ill-health retirement occurs using the same basis as applies for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is terminated.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (i)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases.

3.10 Policies on bulk transfers

The Fund is in the process of developing a policy to cover bulk transfer payments into, out of and within the Fund. However, the agreement in general will be:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the members' past service liabilities of the transferring members;
- Where the entire membership of the employer (i.e. active, deferred and pensioner members) transfers out, the Fund will not pay a bulk transfer greater than the asset share of the transferring employer;
- Each case will be treated on its own merits
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Funding Strategy Statement - Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the Government (see Funding Strategy Statement - Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2021, it should be noted that this will need to be reviewed following the 2020 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, every 6 months. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Scottish Public Pensions Agency (SPPA) acting on behalf of Scottish Ministers, on each of the LGPS Funds in Scotland. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional SPPA oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, SPPA may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

- 1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
- 2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy; and
- 3. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

SPPA may assess and compare these and other metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Funding Strategy Statement - Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**;*
and

*to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish an FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in Fife Direct for comment;
- b) Comments were requested within 30 days;
- c) There is an Employers Forum on 07 February 2018 at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, in LGPS Website and FISH/FifeDirect.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website.

A copy sent by e-mail to each participating employer in the Fund;

A copy sent to employee/pensioner representatives;

A full copy linked from the annual report and accounts of the Fund on the website at www.fifedirect.org/lgps

Copies sent to investment managers and independent advisers;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2020.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Administration Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.fifepensionfund.org on the Forms and Publications page.

Funding Strategy Statement - Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures; and
6. the SPPA/Scottish Ministers (assisted by the Government Actuary's Department) and the Scottish LGPS Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Funding Strategy Statement - Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation monitoring of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance; reviewed at least every three years.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p>

Risk	Summary of Control Mechanisms
	Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2014 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Time, cost and/or reputational risks associated with any SPPA/Scottish Ministers intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.

Risk	Summary of Control Mechanisms
	Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (g) and (i) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

Funding Strategy Statement - Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Funding Strategy Statement Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Funding Strategy Statement - Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Funding Strategy Statement - Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to SPPA (see section 5), is calculated in effect as the sum of all the individual employer rates. SPPA currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the Primary rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details), and
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Funding Strategy Statement - Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below);
2. within the determined time horizon (see 3.3 Note (c) for further details); and
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;

8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of regular employer contributions within any financial year;
2. the actual timing of transfers in or out of the Fund; and
3. the actual timing of changes in the benefit payments made due to retirements and deaths.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Funding Strategy Statement - Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term or poses an elevated risk to the Fund, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2017 and setting contribution rates effective from 1 April 2018, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2014 valuation (1.6% per annum), which therefore gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for many public sector employees is currently subject to restriction. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2017 valuation has been set to be a blended rate combined of:

1. 1.5% p.a. until 31 March 2020, followed by
2. 1% above the consumer prices index (CPI) p.a. thereafter.

This gives a single “blended” assumption of CPI plus 0.5%. This is a change from the previous valuation, which assumed a flat assumption of CPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have assumed CPI to be 1.0% per annum less than RPI. This is a larger difference than at 2014 (which was 0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2016 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2014.

The combined effect of the above changes from the 2014 valuation approach, is to reduce life expectancy by around 0.7 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Funding Strategy Statement - Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the Primary and Secondary rates .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates,

benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, some universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . In broad terms, this relates to the shortfall of its asset share to its funding target . See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, and usually individual employer Primary and Secondary contribution rates. This is normally carried out in full every three years (last done as at 31 March 2017), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

INVESTMENT COMMENTARY - LOTHIAN PENSION FUND INVESTMENT

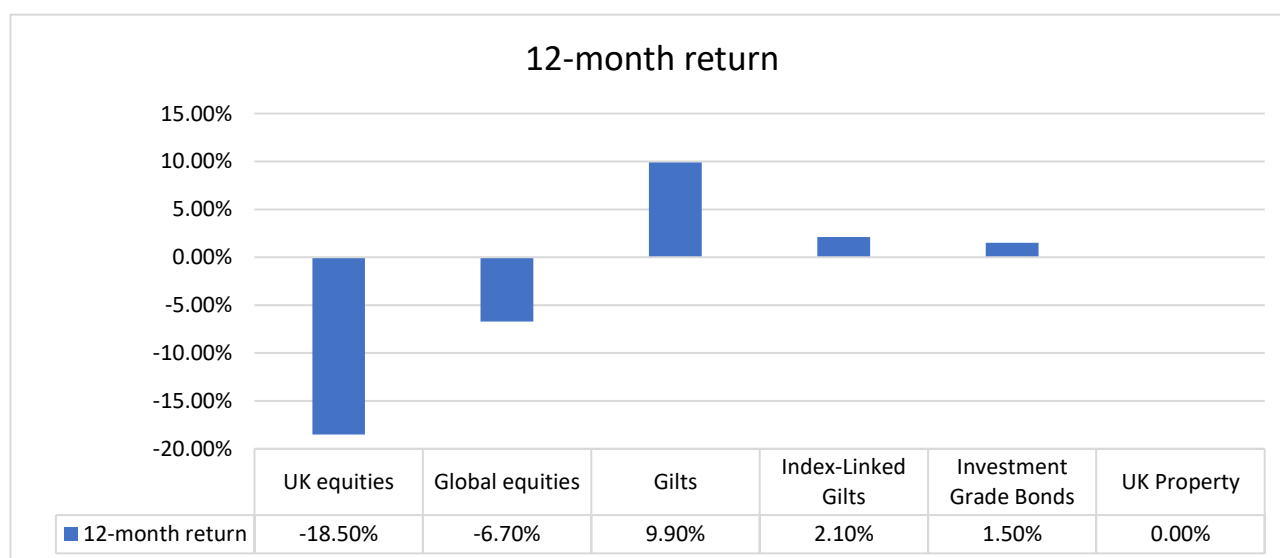
Investment Markets

For the 12 months to 31 March 2020, UK equities (FTSE All Share) returned -18.5%, while global equities (MSCI ACWI, in GBP) returned -6.7%. The fall in global equities for sterling based investors was mitigated by a weaker pound (global equities returned -10% in local currency terms). Sterling had strengthened over 2019 as UK political uncertainty cleared with the election of a majority Conservative government in December 2019. However, it then sold off sharply in March 2020 (along with risk assets) in response to the widening COVID-19 (coronavirus) pandemic. 12-month equity returns were dominated by the outsized moves in the first quarter of 2020 when UK and global equities (in sterling) returned -25.1% and -16.0%, respectively.

Government bond yields reached record lows in August 2019 as investors sought relative safety in the face of mounting recession fears, in the process pushing the amount of negative yielding sovereign debt to an all-time high. However, the prospect of an initial trade agreement between the US and China buoyed risk assets and bond yields rose during the fourth quarter of 2019. Markets continued to perform strongly into early 2020, seemingly discounting any major economic impact from the January coronavirus outbreak in China. However, as international outbreaks emerged in mid-February, volatility rose.

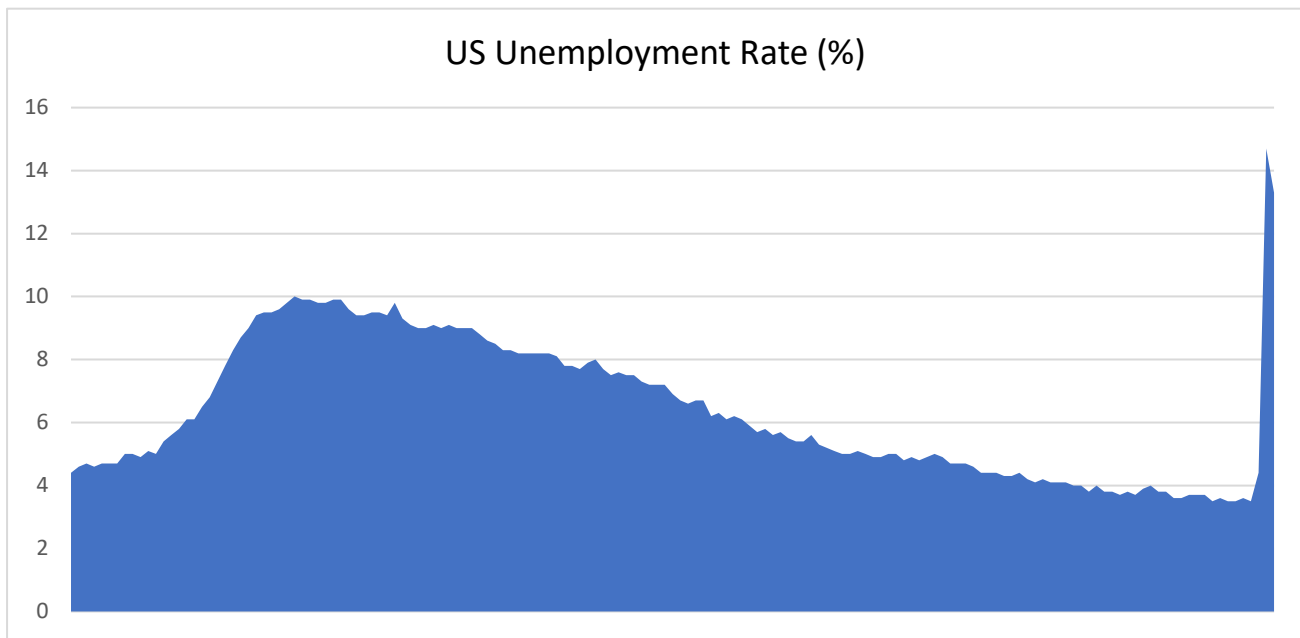
At the beginning of March, Russia and Saudi Arabia started an oil price war as negotiations on production cuts to offset declining demand broke down. Combined with the increasing spread of the coronavirus pandemic, risk assets sold off sharply through to mid-March as equity market volatility rose to its highest level in the last 30 years. The Bank of England, the US Federal Reserve and other central banks reduced their benchmark interest rates close to zero to support their economies through the ongoing crisis. UK and US government bond yields ended the year to 31 March 2020 near their all-time lows.

The table below shows index returns over 12 months to 31 March 2020 for a range of asset classes.



Source: Bloomberg & MSCI

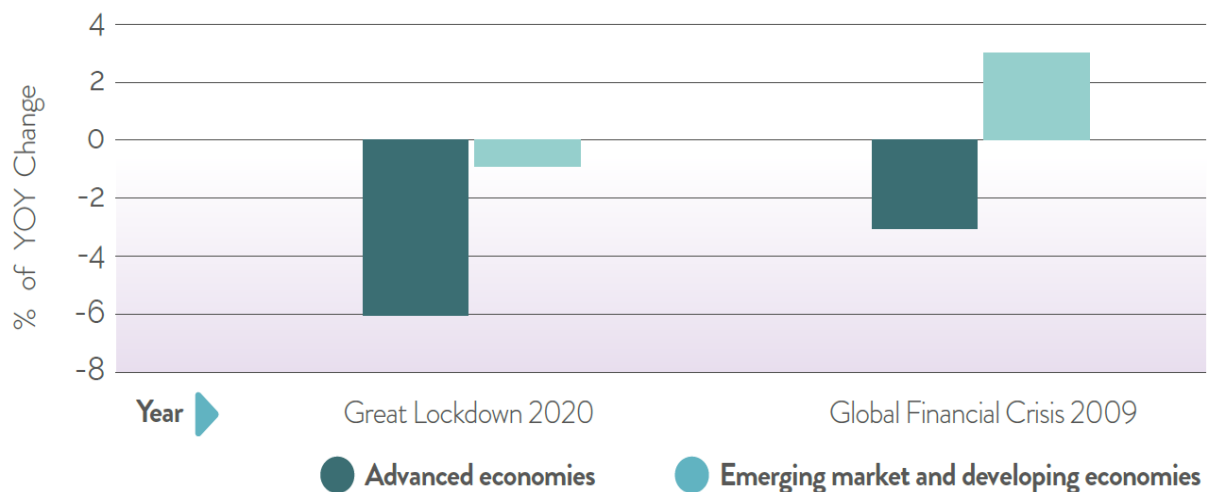
The speed and severity with which lockdowns have impacted economies is illustrated in the chart below, which shows the surge in the unemployment rate in the US from 3.5% in February to 14.7% in April, vastly exceeding the peak of 10% during the global financial crisis just over a decade ago.



Source: US Bureau of Labor Statistics, Bloomberg

The most recent April 2020 forecasts by the IMF (in the chart below) also indicate that the damage to global growth will be worse than the downturn of 2008/2009.

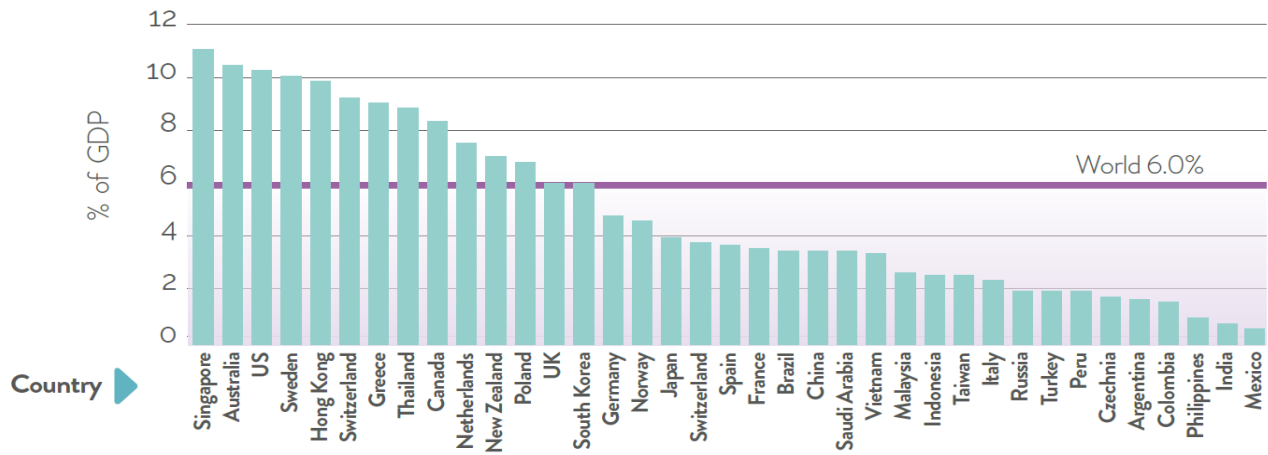
REAL GDP GROWTH YEAR-ON-YEAR % CHANGE



Source: IMF, blogs.imf.org, 14 April 2020

As the coronavirus crisis has unfolded, the scale of monetary and fiscal stimulus and support announced by central banks and governments worldwide has been unprecedented; fiscal stimulus measures alone have been estimated at c6% of global GDP (see chart below). Markets have responded positively with equities bouncing (at end April 2020) almost +30% off their mid-March lows. The market reaction suggests that many believe that the support may be enough to offset the deeply negative economic and business impacts, enabling a quicker return to normalised economic activity than more cautious observers are projecting.

NEW FISCAL STIMULUS MEASURES TO TACKLE COVID-19 IMPACT



Source: Macrobond, LGIM estimates, 24 April 2020

ADDITIONAL INFORMATION

Actuaries:	Hymans Robertson LLP
Auditors:	Audit Scotland
Bankers:	Royal Bank of Scotland
Investment Consultants:	Hymans Robertson Investment Consultants
Custodians:	The Northern Trust Company
Solicitors:	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, Shared Service Centre, Finance & Corporate Services.

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

Email: Pensions.section@fife.gov.uk

Telephone: 01592 583278

Independent auditor's report to the members of Fife Council as administering authority for Fife Pension Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Fife Pension Fund (the fund) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is four years. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter – Investment valuation

I draw attention to Note 13 "Fair Value – Basis of valuation" which describes the effects of a material uncertainty, caused by Covid-19, on the valuation of some investment assets. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director Finance and Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Executive Director Finance and Corporate Services and Superannuation Fund and Pensions Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Director Finance and Corporate Services is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Director Finance and Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director Finance and Corporate Services is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Superannuation Fund and Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Executive Director Finance and Corporate Services is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Brian Howarth ACMA CGMA
Audit Director
Audit Scotland
4th Floor, The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

November 2020

