Pensions Committee

Please note this meeting will be held remotely.

Tuesday, 13th December, 2022 - 10.00 a.m.

AGENDA

ITEM LIKELY TO BE CONSIDERED IN PRIVATE

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

Lindsay/

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

Lindsay Thomson
Head of Legal and Democratic Services
Finance and Corporate Services
Fife House
North Street
Glenrothes
Fife, KY7 5LT

6th December, 2022

If telephoning, please ask for:
Wendy MacGregor, Committee Officer, Fife House, North Street, Glenrothes
Telephone: 03451 555555, ext. 442178; email: Wendy.MacGregor@fife.gov.uk

Agendas and papers for all Committee meetings can be accessed on www.fife.gov.uk/committees

13th December, 2022

Agenda Item No. 3

Fife Pension Fund Annual Audit Report and Audited Accounts

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

This report contains the Audited Accounts for Fife Pension Fund for 2021-22, as well as the Annual Audit Report. This report also provides a brief response to the External Auditor's report to Fife Council and the Controller of Audit.

Recommendation

It is recommended that Members:-

(1) approve the Audited Accounts for signature; and

(2) note the positive report by Audit Scotland, the Council's External Auditors, and this management response.

Resource Implications

None.

Legal & Risk Implications

None.

Policy & Impact Assessment

None.

Consultation

None.

1.0 Background

1.1. The Local Authority Accounts (Scotland) Regulations 2014 require the audited accounts to be submitted to Committee whose remit includes audit or governance functions, for approval for signature. Once the accounts are approved the statements which form part of the Annual Report and Accounts are then signed. In consider the accounts the Committee must consider a report by the appointed auditor.

1.2. The Council's External Auditor requires to communicate matters relating to the audit of the Financial Statements to those charged with governance of the organisation. The appropriate committee to consider governance within Fife Council is the Superannuation and Pension Fund Committee.

2.0 Issues

2.1 Fife Pension Fund has a good record of delivering Financial Statements which the Council's External Auditor agrees give a true and fair view of the Pension Fund's financial position. This year is no exception and in overall terms the audit report is positive, particularly considering the challenging circumstances in which the Fund has operated.

2.2 The auditor's opinion in relation to the financial statements is unqualified and this means the auditor has concluded that the accounts give a true and fair view of the financial position of the Fife Pension Fund, its assets and liabilities, for the year ended 31 March 2022 and that the accounts have been properly prepared in accordance with relevant legislation and accounting regulations. The auditor found no material weaknesses in the accounting and internal control systems.

2.3 There were issues identified in respect of the Pension Fund bank reconciliation, this has now been completed and being updated on routine basis.

2.4 The auditor has identified one issue in relation to the Financial Statements relating to an unadjusted misstatement for £0.5m, which is below materiality levels therefore no change was made.

2.5 The auditor has made a total of one recommendation in respect of notification of member benefit statements by email. Officers have provided a response and a scheduled timeframe to complete the actions.

2.6 There are 5 brought forward recommendations of which 4 are complete. One is ongoing and is being addressed.

3.0 Conclusions

3.1 In overall terms the audit report is very positive and the audit opinion is unqualified. Preparation of the Annual Report and Accounts is one of the key outputs for the Finance and Corporate Services Directorate.

3.2 I wish to record my thanks to staff across the Council who have contributed to this process, with particular thanks to both the Pensions Investment and Pensions Administration teams. My thanks also go to Audit Scotland staff for their contribution to the process and for their willingness to work in partnership with Fife Council.

Report Contact
Elaine Muir
Head of Finance
Fife House

Email: elaine.muir@fife.gov.uk

Documents attached:

ISA 580 Covering Letter Fife Pension Fund

Fife Pension Fund Annual Audit Report 2021-22

Fife Pension Fund Annual Report and Accounts 2021-22

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AUDIT SCOTLAND

Fife Pensions Committee

30 November 2022

Fife Council Pension Fund
Audit of 2021/22 annual accounts

Independent auditor's report

1. Our audit work on the 2021/22 annual accounts is now complete. We anticipate being able to issue unqualified audit opinions in the independent auditor's report on 13 December 2022 (the proposed report is attached at **Appendix A**).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Pensions Committee's consideration our draft annual report on the 2021/22 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.

3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.

4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.

6. These misstatements are below our performance materiality level and if corrected, there would be a £9 million increase in the net assets of the Fund.

Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Pensions Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

9. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

APPENDIX A: Proposed Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

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 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the financial transactions of the fund during the year ended 31 March 2022 and of the amount and disposition at that date of its assets and liabilities;

- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 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 six 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.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

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

As explained more fully in the Statement of Responsibilities for the Pension Fund Accounts, 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 insert job title of proper officer 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

The Pension 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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;

- identifying which laws and regulations are significant in the context of the fund;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund’s controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting on other requirements

Other information

The Executive Director Finance and Corporate Services is responsible for other information in the annual report. The other information comprises the Management Commentary, The Pension Fund Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities for the Pension Fund Accounts and other reports included in the annual report other than the financial statements and my auditor’s report thereon.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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 the Management Commentary, Pension Fund Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In 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 Pension Fund 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

APPENDIX B: Letter of Representation (ISA 580)

Brian Howarth, Audit Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Brian

Fife Pension Fund
Annual Accounts 2021/22

1. This representation letter is provided about your audit of the annual accounts of Fife Pension Fund for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.

2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Fife Pension Fund's annual accounts for the year ended 31 March 2022.

General

3. Fife Pension Fund and I have fulfilled our statutory responsibilities for the preparation of the 2021/22 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Fife Pension Fund have been recorded in the accounting records and are properly reflected in the financial statements.

4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (2021/22 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014 (as amended by the Coronavirus (Scotland) Act 2020).

6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Fife Pension Fund at 31 March 2022 and the transactions for 2021/22.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2021/22 accounting code where applicable. Where the code does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Fife Pension Fund's circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Fife Pension Fund's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Fife Pension Fund's ability to continue as a going concern.

Related Party Transactions

10. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2021/22 accounting code. I have made available to you the identity of all the fund's related parties and all the related party relationships and transactions of which I am aware.

Corporate Governance

11. I confirm that Fife Pension Fund has undertaken a review of the system of internal control during 2021/22 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

12. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2022, which require to be reflected.

Actuarial Assumptions

13. The pension assumptions made by the actuary in the IAS 26 report on the Fund have been reviewed and I can confirm that they are consistent with management's own view.

Investment assets and current assets

14. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with 2021/22 Code.

15. On realisation in the ordinary course of the Fund's business at the accounting date, the investment and current assets shown in the net assets statement would be expected, in my opinion, to produce at least the amounts at which they are stated.

16. The fair value of investments which do not trade in an active market has been assessed with regard to underlying value, cash flow or proprietary models and discounted appropriately for the difficulty of redemption.

Contractual commitments

17. All outstanding call payments due to unquoted limited partnership funds have been fully included in the accounts for the period to 31 March 2022.

Employer / Employee contributions

18. A high-level analysis is carried out at the year-end comparing the total monthly contributions in the pension system with the amounts recorded in the financial ledger. In addition, monthly checks are performed on contributions received from employers during the year with any unexpected differences followed-up and investigated.

Liabilities

19. All liabilities at 31 March 2022 of which I am aware have been recognised in the annual accounts.

20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

21. There are no significant contingent liabilities, other than those disclosed in Note 21 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and IAS 37.

Fraud

22. I have provided you with all information in relation to:

   – my assessment of the risk that the financial statements may be materially misstated because of fraud

   – any allegations of fraud or suspected fraud affecting the financial statements

   – fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

23. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Remuneration Report

24. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

25. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Events Subsequent to the Date of the Balance Sheet

26. All events subsequent to 31 March 2022 for which the 2021/22 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Eileen Rowand
Executive Director – Finance and Corporate Services
4th Floor
Fife House
North Street
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Fife
KY7 5LT

Fife Pension Fund

2021/22 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Fife Pensions Committee and the Controller of Audit

November 2022

Contents

Key messages

2021/22 annual accounts

1 Our opinions on the annual accounts are unmodified.

2 The accounts were made available for audit and inspection in line with the statutory timetable.

3 There were few issues arising from our accounts audit.

4 A number of our prior year recommendations are not yet complete.

Financial management and sustainability

5 Investment returns were positive in 2021/22 and the five year annualised return remained above benchmark.

6 The Fund's assets represented 88 per cent of promised retirement benefits as at 31 March 2022.

7 The Fund's investment performance was buoyed by its passive equity mandates and by the performance of other real assets.

8 There was further progress towards the Fund's strategic asset allocation.

9 The timeliness and review of reconciliations were again an issue in 2021/22.

Governance, transparency and best value

10 There have been further improvements in governance.

11 Transparency around JISP activity has improved.

12 Members struggled to comply with the minimum requirements of the training policy in 2021/22.

13 Administration and oversight unit costs were slightly higher than those of other similar size funds in Scotland.

Introduction

1. This report is a summary of our findings arising from the 2021/22 audit of Fife Pension Fund (the Fund). The scope of our audit was set out in our Annual Audit Plan presented to the Pensions Committee in March 2022. This report comprises an audit of the Fund's annual accounts and consideration of the wider dimensions required for public audit and set out in the Code of Audit Practice 2016.

2. The main elements of our audit work in 2021/22 have therefore been:

- an audit of the Fund's 2021/22 annual accounts including the issue of an independent auditor's report setting out our opinions
- a review of the Fund's main financial systems
- consideration of the four wider audit dimensions of financial management, financial sustainability, governance and transparency, and value for money.

Added Value

3. We add value to the Fund through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports (Appendix 2) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

4. Fife Council is the administering authority for the Fife Pension Fund. The council delegates this responsibility to the Pensions Committee. The committee is responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Committee is required to review the effectiveness of internal control arrangements and approve the annual accounts.

5. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice 2016, and supplementary guidance, and International Standards on Auditing in the UK.

6. As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude on:

- the effectiveness of the Fund's performance management arrangements
- suitability and effectiveness of corporate governance arrangements and financial position
- arrangements for securing financial sustainability.

7. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

8. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

10. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £37,530 as set out in our Annual Audit Plan remains unchanged.

12. This report is addressed to both the members of the Pensions Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

13. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

14. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23, Azets will be the appointed auditor for Fife Pension Fund. We are working closely with the new auditors to ensure a well-managed transition.

15. We would like to thank the Pensions Committee and officers of the Fund for all the co-operation and assistance we have received over the last six years.

1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main messages

Our opinions on the annual accounts are unmodified.

The accounts were made available for audit and inspection in line with the statutory timetable.

There were few issues arising from our accounts audit.

A number of our prior year recommendations are not yet complete.

Our audit opinions on the annual accounts are unmodified

16. The annual accounts for the year ended 31 March 2022 were approved by the Pensions Committee on 13 December 2022. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

17. There were delays in auditing the annual accounts due to Covid-19. The Fife Pension Fund audit was affected by issues in our wider audit portfolio and prioritisation decisions within the Fife audit team.

There were no objections raised to the annual accounts

18. Finance staff produced the accounts in line with the statutory timetable and made them available on the Fund's website on 1 July 2022.

19. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for Fife

Pension Fund was published on the Fife Council website and complied with the regulations. No objections were received to the Fife Pension Fund accounts.

Overall materiality is £33 million

20. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of any misstatement.

21. We calculate overall materiality for the financial statements based on the net assets of the Fund and set a lower materiality for contributions and benefits.

22. On receipt of the unaudited annual accounts, we reviewed our materiality calculations and subsequently revised our assessment Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£ 33 million
Overall performance materiality	£20 million
Overall reporting threshold	£250,000
Specific materiality – contributions and benefits	£11.7 million
Specific performance materiality – contributions and benefits	£7 million

We have gained assurance over the significant risks identified in our audit plan

23. Exhibit 2 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Assurance over significant planning risks

Audit risk	Assurance procedures	Results and conclusions
1. Risk of material misstatement due to fraud caused by the management override of controls As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	We assessed the design and implementation of controls over journal entry processing. Made enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Tested journals at the year-end and post-closing entries and focus on risk areas and transactions with related parties. Considered the need to test journal entries and other adjustments during the period. Evaluated significant transactions outside the normal course of business. Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Tested income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments.	The controls over journal entry processing were appropriate. We reviewed unusual journal activity and made enquiries of officers and did not identify any issues. Our testing of individual journals did not identify any significant issues. There was no evidence of significant transactions outside the normal course of business. Principles and methods of preparing accounting estimates were consistent with the prior year and reasonable. Testing of income and expenditure, and accruals and prepayments, did not identify any material errors. **Conclusion** No issues identified which indicate management override of controls.

We have no significant findings in relation to other areas of planned audit focus

24. In addition to the significant risk arising from possible management override of controls we identified risks of material misstatement in relation to:

- Valuation of level 3 investments. Level 3 investments involve estimation uncertainty due to the use of valuation models and unobservable inputs in their valuation. There is also a known timing lag for level 3 valuations which can mean that valuations are not up to date. Disclosure requirements for level 3 investments are complex.

- Valuation of the present value of promised retirement benefits. This disclosure is considered significant and is subject to volatility because small changes in actuarial assumptions result in large changes to the valuation.

25. We identified a valuation lag for level 3 investments of £9 million, with investment values in accounts being lower than actual valuations at year end. It is necessary for the accounts to be produced before all year end valuations are available and in the context of the Fund's accounts £9 million represents a tolerable degree of estimation error. There are no other issues arising from our review and testing of investment valuations.

26. We have no issues to raise in relation to the estimated value of promised retirement benefits.

We have one significant finding to report on the annual accounts

27. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The finding from our audit of the Fund's annual accounts is outlined in Exhibit 3 with recommendations included in the action plan at Appendix 1.

Exhibit 3
Significant findings from the audit of the annual accounts

Issue	Resolution
1. Bank reconciliation The year-end bank reconciliation was not completed until the end of June 2022 due to the introduction of a new income management system Adelante Smart Pay at the end of February. Reconciling items on the bank reconciliation are in fact invalid and represent mis-statements in the accounts with cash being overstated by £0.5 million. Debtors have been overstated by £0.5 million and creditors overstated by £1 million.	The error is above our reporting threshold but below materiality. No amendments have been made to the audited accounts. Bank reconciliations should be completed and reviewed on a timely basis so that any errors can be identified and resolved timeously. **b/f Recommendation 2** (refer Appendix 1, action plan)

Identified misstatements were unadjusted in the audited accounts, these were below our performance materiality and we did not need to revise our audit approach

28. Net unadjusted misstatements of £0.5 million, identified in Exhibit 3, were below our performance materiality. The valuation timing lag on level 3 investments of £9 million (paragraph 25) remains unadjusted and is also below our performance materiality. We have reviewed the nature and causes of these misstatements and concluded that they rose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We did not need to revise our audit approach.

29. There were a number of other minor presentational amendments made to the accounts during the course of the audit including improvements to the management commentary and annual governance statement. Analysis of contribution income at Note 6 to the accounts was amended to reflect the correct classification between bodies. Also AVC information received from providers after closedown was included at Note 18 to the accounts.

A number of our prior year recommendations are not yet complete

30. The Fund has made some progress in implementing our prior year audit recommendations with one of the five actions complete and four partially complete. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in Appendix 1.

2. Financial management and sustainability

Financial management is about financial capacity, sound budgetary processes and whether the control environment is operating effectively. Financial sustainability is about the capacity to meet the current and future needs of pension fund members.

Main messages

Investment returns were positive in 2021/22 and the five year annualised return remained above benchmark.

The Fund's assets represented 88 per cent of promised retirement benefits as at 31 March 2022.

The Fund's investment performance was buoyed by its passive equity mandates and by the performance of other real assets.

There was further progress towards the Fund's strategic asset allocation.

The timeliness and review of reconciliations were again an issue in 2021/22.

Investment returns were positive in 2021/22 and the five year annualised return remained above benchmark

31. The Fund demonstrated an overall investment return for the year was 6.3 percent (29.7 per cent in 2020/21). This was below the annual benchmark return for the Fund of 9 per cent. The five year annualised investment return was 8.8 per cent (down from 11.6 per cent in 2020/21). This was above the Scottish LGPS median five year annualised return of 8 per cent.

32. The Fund's key performance statistics are shown at Exhibit 4.

Exhibit 4
Key statistics 2021/22 – Fife Pension Fund

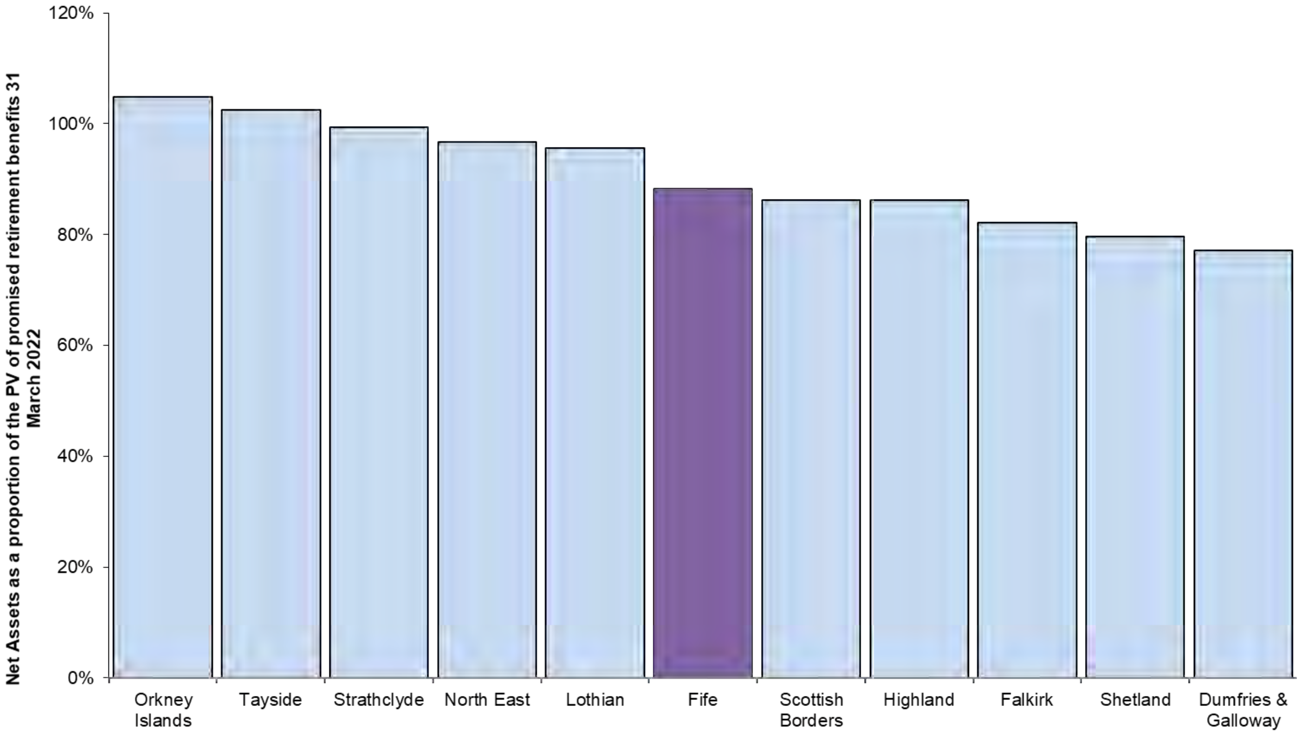
Increase in net assets	2020 triennial funding position	2022 Assets / liabilities (IAS 19)	Investment performance
£3.531 billion Closing net assets 31 March 2022 6.9% increase	**97%** 2020 triennial funding valuation	**88%** Net assets as a proportion of promised retirement benefits 31 March 2022	**6.3%** Return on investments in 2021/22
£3.303 billion Opening assets 1 April 2021	**93%** 2017 triennial funding valuation	**80%** Net assets as a proportion of promised retirement benefits 31 March 2021	**8.8%** Annualised return on investments over 5 years (benchmark 5.8%)

Source: 2021/22 Fife Pension Fund Annual Report and Accounts

The Fund's assets represented 88 per cent of promised retirement benefits as at 31 March 2022

33. Fund assets increased to £3.5 billion in 2021/22 and liabilities valued on an accounting basis reduced slightly to £4 billion. The accounting valuation used in the financial statements is estimated by the Fund's actuary using a high-quality corporate bond rate to discount projected cashflows. The discount rate will typically be lower than the rate used at triennial valuations, leading to a higher estimate of liabilities. Based on this estimate, the Fund's assets represented 88 per cent of promised retirement benefits as at 31 March 2022, which was an increase of 8 percentage points over the year. The comparative position of the Fund is shown at Exhibit 5.

Exhibit 5
Net assets as a proportion of the present value of promised retirement benefits 31 March 2022 - accounting basis – LGPS funds Scotland



Source: Unaudited annual accounts 2021/22

Across Scotland annual investment returns were below benchmark in most cases

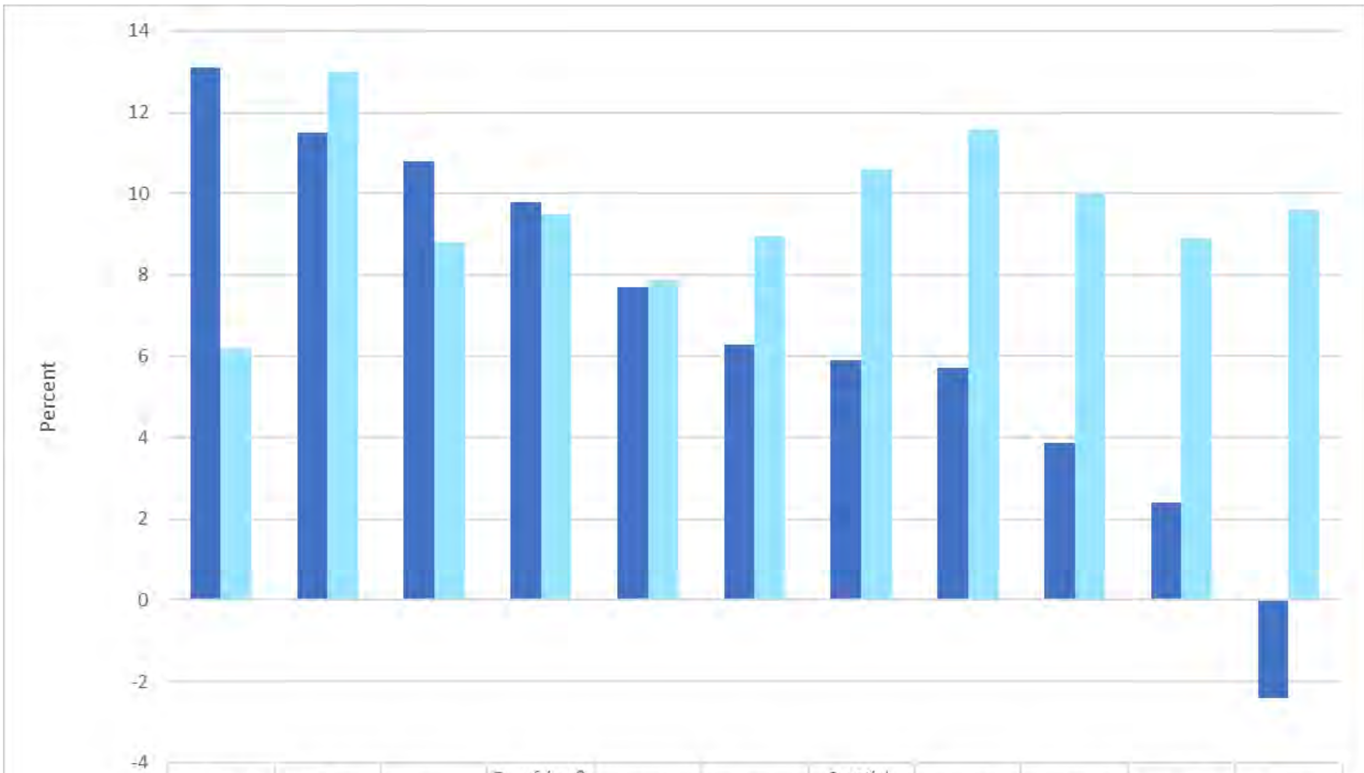
34. Annual investment returns for most LGPS funds in Scotland remained positive, although returns were below benchmark for most funds. Fife's investment returns over three and five years remained above benchmarks.

35. Fund benchmarks and annual returns reflect the investment strategy of each fund. Different funds have different investment strategies and different exposure to market volatility and risk. It is not clear that benchmarks are set consistently across funds, at Fife, for example, some infrastructure funds have a cash benchmark assigned. The reported annual investment returns and benchmarks for all Scottish funds is shown in Exhibit 6.

Exhibit 6

Annual investment returns and benchmarks 2021/22 – LGPS funds Scotland

Actual investment returns were below benchmark for most funds in 2021-22



	Falkirk	Shetland	Lothian	Dumfries & Galloway	Strathclyde	Fife	Scottish Borders	Tayside	Highland	North East	Orkney
Return	13.1	11.5	10.8	9.8	7.7	6.3	5.9	5.7	3.9	2.4	-2.4
Benchmark	6.2	13.0	8.8	9.5	7.9	9.0	10.6	11.6	10.0	8.9	9.6

Source: Unaudited annual accounts 2021/22

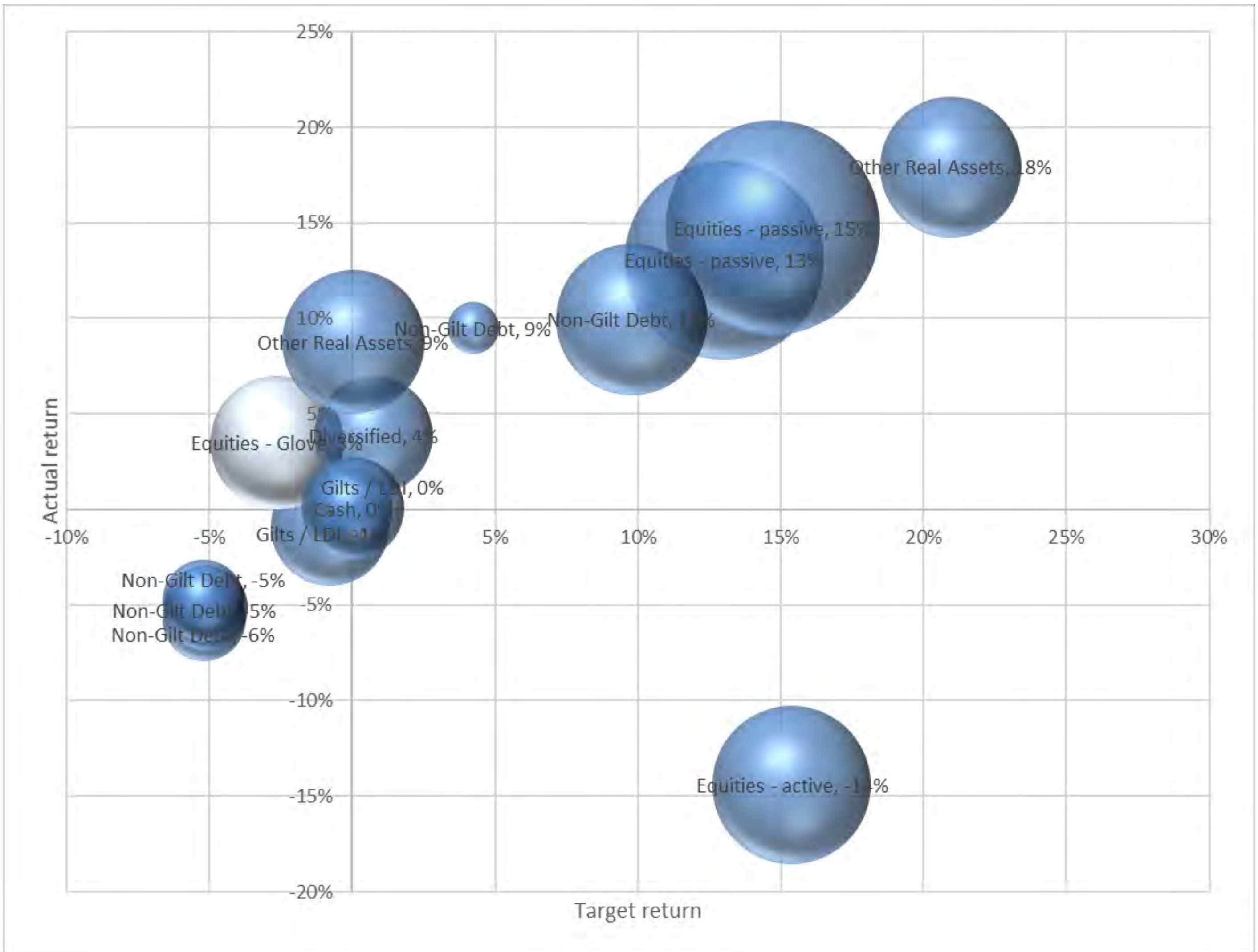
The Fund's investment performance was buoyed by its passive equity mandates and by the performance of other real assets

36. Returns on equities generally remained positive in 2021/22 and the Fund's passive equity mandates delivered double digit returns. There was market volatility towards the end of the year and the Fund's active equity mandate made a negative return (after a number of very strong years). The Fund's Other Real Assets mandates made quite strong returns as did one of the non-gilt debt mandates. Investment returns and benchmarks are shown for the Fund's investment mandates in Exhibit 7.

Exhibit 7

Fife Pension Fund annual investment returns and targets by mandate 2021/22

Annual returns on equities remained positive despite volatility towards the end of the year.

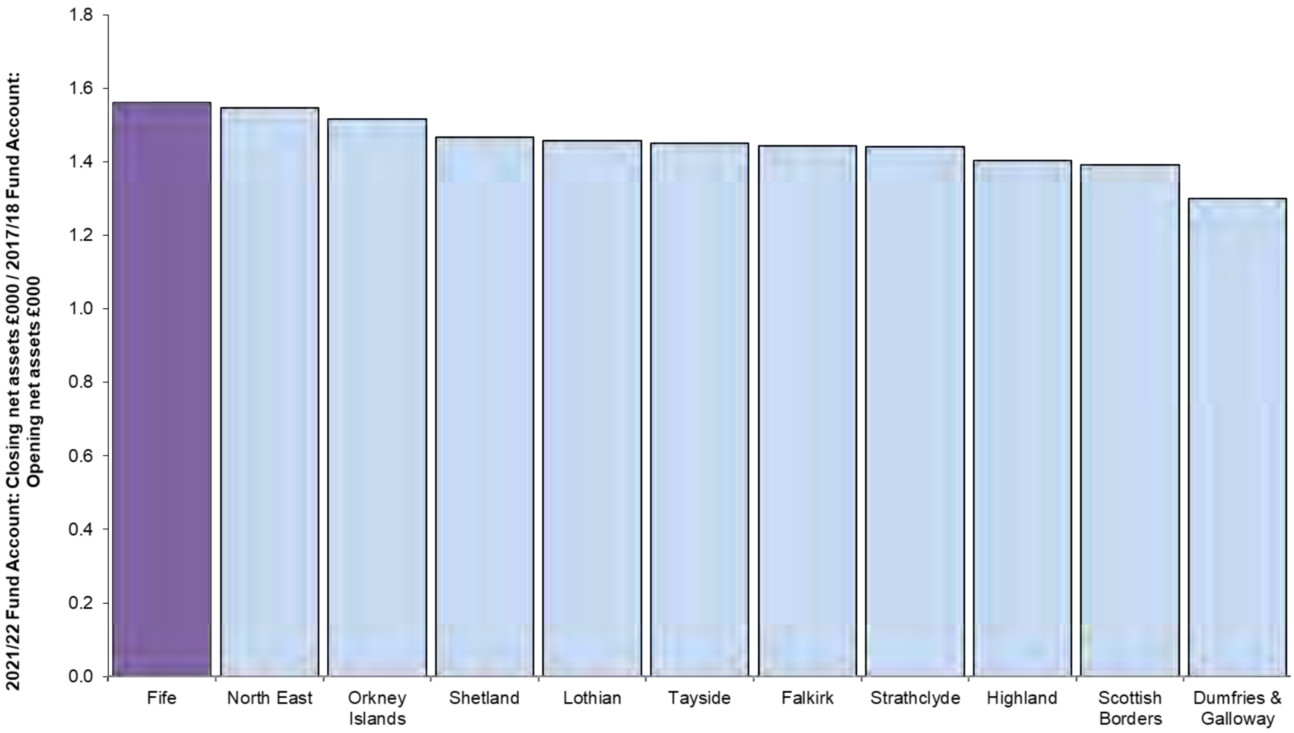


Source: Fife Pension Fund records and reports – not all mandates were in place for the full year e.g. Equities Glove

Fife has seen the largest increase in net assets over the last five years

37. Fife has seen the largest increase in net assets over the last 5 years when compared to other Scottish LGPOS funds (Exhibit 8). This reflects investment returns, contribution rates and benefit payments. Fife has the highest employer contribution rate for any Scottish LGPS fund, at 24.5 per cent for the main employer, and remains cashflow positive in dealings with members.

Exhibit 8
Increase in net assets over five years to 31 March 2022 – LGPS funds Scotland
Increases in net assets reflect investment returns, and cashflows from dealing with members.



Source: Annual Accounts

There was further progress towards the Fund's strategic asset allocation

38. Officers of the council continue to implement the investment strategy and participate in Joint Investment Strategy Panel collaborative arrangement with Lothian Pension Fund and Falkirk Pension Fund. Officers benefit from the support of investment advisors on the panel.

39. In 2021/22 the Fund's officers divested £100 million of equity and £100 million diversified growth investments, where the Fund was overweight against its policy targets. Investments were made in the Liability Driven Investments (LDI formerly referred to as Gilts) and Real Assets policy groups.

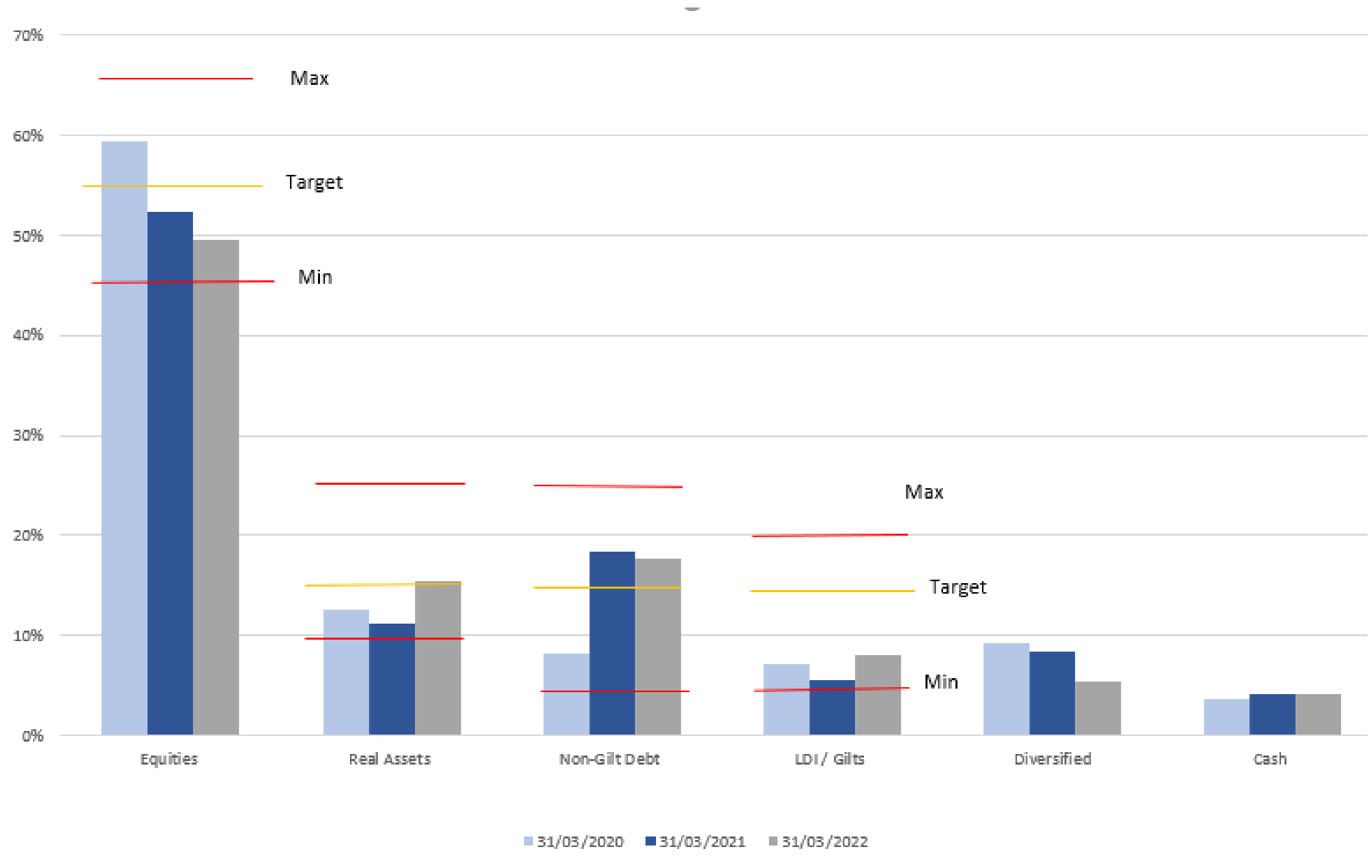
40. Real asset investments were made in collaboration with Lothian Pension Fund and other LGPS partners. The Fund's Global Low Volatility Equity mandate has now moved to Lothian's investment arm LPFI, which is accredited by the FCA.

41. The Fund's closing asset allocations, together with the allocations from the previous two years, are shown against the ranges in the latest investment strategy in Exhibit 9.

Exhibit 9

Asset allocation and strategy ranges by policy group 31 March 2020, 2021 and 2022

The Fund divested equities and diversified growth and invested in LDI and real assets in 2021/22.



Source: Annual Report and Accounts – the diversified asset category also includes equity investments – Cash excludes some balances held by investment managers awaiting investment - The asset allocation targets and ranges are from the investment strategy approved 29 June 2021.

42. Against the ranges in the revised Investment Strategy, approved 29 June 2021, the fund was within limits but below target for equities and LDI and above target for Non-Gilt Debt. However, the position is complicated by the Diversified Growth mandate which includes investments across a number of policy groups.

43. We understand there has been further movements between policy groups and towards strategic asset allocations since the year end. Allocations are also impacted by market volatility.

The Government Actuaries Department reviewed the 2020 triennial valuation process and will report on any issues

44. The Government Actuaries Department (GAD), on behalf of the Scottish Ministers, are currently undertaking their review of the 2020 triennial revaluation under section 13 of the Public Service Pensions Act 2013. The review covers the consistency with which actuaries have undertaken valuations and their compliance with regulations. It also looks at the solvency and long-term efficiency of the funds.

45. Whilst GAD have yet to formally report their findings we understand that they have provided an update to the Scottish Scheme Advisory Board and that there were no significant issues arising.

The cost sharing mechanism was not triggered in 2017 and HMT intend increasing the corridor to +/-3 per cent from 2020

46. The Public Service Pensions Act 2013 introduced a cost sharing mechanism for public sector pension schemes. GAD calculated the employer cost cap to be 15.2 per cent of pay and within the terms of the scheme any movement in the cost of current service out with a 2 per cent corridor up or down from this baseline in 2017 would have triggered a review of contributions or benefits.

47. The cost sharing mechanism was paused for a period pending the consideration of the McCloud ruling. In June 2022 GAD published the results of the review of the 'cost cap cost' following the 2017 triennial valuation. Employer costs had risen by 0.2 per cent so no review of benefits or contributions was triggered.

48. In 2021 HMT consulted on changes to the cost cap mechanism and plan to go ahead with proposed changes to the cost sharing mechanism for 2020 valuations:

- To remove any allowance for legacy schemes in the mechanism so it only considers past and future service in the reformed scheme.
- Widening of the cost corridor from +/-2 per cent to +/-3 per cent.
- Introduction of an 'economic check' requiring consideration of long-term economic assumptions prior to any triggering of the mechanism.

The timeliness and review of reconciliations were again an issue in 2021/22

49. We reported issues with the timeliness and review of reconciliations in 2020/21. We found similar issues in 2021/22. Timely completion and review of reconciliations is an essential part of the internal control framework for the Fund and an increased effort is needed to address the weaknesses in this area. We bring forward our previous recommendation as outstanding at Appendix 1. We concluded that overall, key controls were operating effectively at year end and reconciliations were completed in time for our audit.

3. Governance, transparency and best value

The effectiveness of scrutiny and oversight and the transparent reporting of information. Using resources effectively and continually improving services.

Main messages

There have been further improvements in governance.

Transparency around JISP activity has improved.

Members struggled to comply with the minimum requirements of the training policy in 2021/22.

Administration and oversight unit costs were slightly higher than those of other similar size funds in Scotland.

There have been further improvements in governance

50. There have been further improvements in governance in 2021/22 with the appointment of an Independent Professional Observer (IPO) to support the Pension Committee and Pensions Board. The arrangement appears to be working well with the IPO making useful contributions to meetings.

51. There is an officer governance group that meets ahead of the Pension Committee and Pension Board on a quarterly basis and deals with much of the routine governance associated with the administration of the pension fund.

52. The risk register is now reported to the Pensions Committee on a quarterly basis and there is a clear commitment to bring more reports on routine governance to the committee and board meetings going forward.

Transparency around JISP activity has improved

53. The investment strategy is set by the Pensions Committee with the delivery delegated to officers, drawing on the advice from the Joint Investment Strategy Panel (JISP) and officers from Lothian Pension Fund Investments.

54. Governance around delivery of the strategy and reporting on the JISP was set out in the Statement of Investment Principles report in September 2022. In line with the approved shared services agreement there is annual reporting on JISP activity and minutes of the quarterly meetings are shared with the Convenor of the committee and the Fund's IPO. The IPO can attend the JISP once each year.

55. Over the course of our audit appointment there have been a number of questions from members of the pension board about the transparency around JISP activity. We have observed an increased level of reporting and we understand that more information will be included in quarterly investment updates going forward.

Members struggled to comply with the minimum requirements of the training policy in 2021/22

56. A training policy was approved in May 2019 and a training needs assessment undertaken in 2020. Internal Audit undertook a review in 2021 reporting that there had been delays in tailoring the training programme to the needs assessment due to Covid-19. In 2021/22 members struggled to attend sufficient training to fulfil the requirement for 14 hours a year set out in the policy.

57. The local elections in May 2022 have resulted in turnover of membership for both the pensions committee and pensions board. The updated policy requires new members to attend induction training before taking up roles and induction training was provided on 23 June 2022. The policy also requires new members to complete the Pensions Regulator online training by the end of 2022.

58. A new training needs assessment has recently been carried out to enable future training to be tailored to the needs of new members. Details of member training completed is reported annually to committee.

The pensions administration strategy has been approved following a review of the administration function

59. The Fund has a pensions administration strategy and performance is reported to committee on a quarterly basis. Performance indicators and targets are kept under review. The administration strategy was approved by the Pension Committee for the first time in September 2022.

60. The new strategy includes more clarity on respective roles and responsibilities of the administrating authority and employer bodies and includes details of penalties for non-compliance with administration requirements on the part of employers.

61. The quarterly administration reports provide the Pensions Committee and Pensions Board with updates on progress with challenges such as the council's new payroll system, McCloud data requirements, and new regulations affecting the administration of pensions. Reports have also provided details of staff training and development to help reduce key person dependency, and details of compliance with regulatory requirements for benefits statements.

62. Internal Audit undertook a performance management review of the administration team in 2021 and Hymans Robertson were also commissioned to review the function.

The availability of member benefits statements is only notified electronically

63. The pensions regulations require funds to provide member benefit statements by 31 August each year. Fife notifies members by email that benefits statements are available online as part of online member services. In 2021 the Fund was able to issue all but 52 benefit statements on time. This was not considered a significant breach.

64. It is not clear whether the Fund has a responsibility to notify availability of member benefit statements by letter where email addresses are not held.

Recommendation 1

Consider the need to notify the availability of member benefit statements by letter where email addresses are not held.

There is a clear commitment to cost transparency along with ongoing benchmarking of investment management costs

65. The Fund remains committed to cost transparency and the benchmarking of investment management costs and expenses. CEM were commissioned again to benchmark costs (2020/21 costs were the latest available).

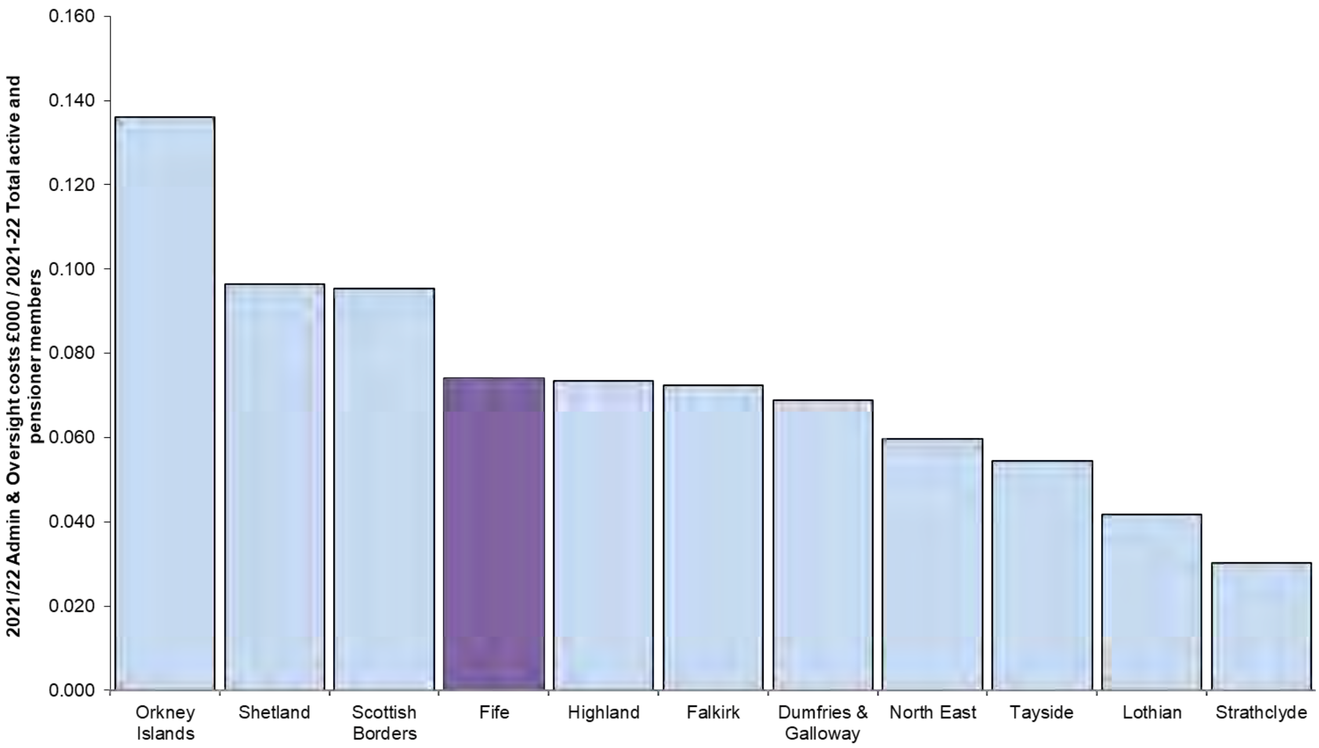
66. The report identified that the Fund's costs were higher than the peer group but that returns remained above median for LGPS peers. Costs were higher due to the 'implementation style' which includes use of fund of fund structures, for example. The report identifies that investment management costs have fallen since 2015.

67. We know from investment updates that the Fund continues to explore ways to reduce costs further through ongoing review of investment manager performance and reorganisation of mandates where appropriate.

Administration and oversight unit costs were slightly higher than those of other similar size funds in Scotland

68. The total cost of administration and oversight disclosed in the accounts for 2021/22 is £2.3 million. This includes the cost of the pensions team, central support costs and actuarial fees, for example. This equates to around £74 for each active and pensioner member at Fife which is slightly higher than unit costs for similar sized Scottish funds (Exhibit 10).

Exhibit 10
Administration and oversight unit costs per active and pensioner member 2021/22



Source: Unaudited annual accounts 2021/22

McCloud will continue to impact on administration and require additional data from employers

69. The McCloud remedy extends protections offered when the LGPS changed in 2015 to a greater number of members. This will result in some members receiving higher benefits when the regulations are changed to accommodate the remedy. Administratively the Fund continues to work with employers to obtain additional information required for calculations where there has been part time working and breaks in member service. Reports showing exceptions have been sent to employers. Revised regulations implementing the remedy are expected before the end of 2022.

The LGPS structural review has been paused

70. The Scottish Local Government Scheme Advisory Board has appointed a Strategic Programme Manager for a review of the structure of the Scottish LGPS. This review started in 2016 and is currently paused. We understand that the programme manager is planning a stakeholder workshop to explore where the review goes from here.

National performance reports

71. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, we published reports which may be of interest to the Fund. These are outlined in Appendix 2 accompanying this report.

Appendix 1

Action plan 2021/22

2021/22 and prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Member benefit statements notifications Fife notifies members by email that benefits statements are available online. It is not clear whether the Fund has a responsibility to notify availability of member benefit statements by letter where email addresses are not held.	Consider the need to notify the availability of member benefit statements by letter where email addresses are not held.	Members for whom no email addresses are held will be notified by letter in 2023. Head of Finance 31 August 2023
b/f 1. Lump Sum accruals	Ensure that appropriate accruals for lump sums are made.	**Ongoing** Lump sum estimates have again been omitted from 2021/22 accounts. These were estimated at £200,000. Further review required as part of 2022/23 closedown. Finance Operations Manager 31 March 2023
b/f 2. Reconciliations	Ensure that all key reconciliations are undertaken and reviewed on a timely basis.	**Ongoing** Completion and review of reconciliations will be undertaken on a timely basis. Service Manager / Finance Operations Manager 31 March 2023
b/f 3. Administration costs	Consider the inclusion of unit costs for administration in	**Ongoing**

Issue/risk	Recommendation	Agreed management action/timing
	budget monitoring and administration reports.	Consideration as part of the ongoing KPIs review. Finance Operations Manager 31 March 2023
b/f 4. Investment fair value hierarchy	As part of the accounts preparation process, ensure that custodian classification of new investments is consistent with that of the investment manager.	**Complete**
b/f 5. Service organisation control reports and complementary user entity controls	Include the review of service organisation control reports and complementary user entity controls specified by the custodian as part of the governance assurance framework.	**Ongoing** Service organisation control arrangements to be outlined in the Annual Governance Statement for 2022/23. Finance Operations Manager 30 June 2023.

Appendix 2

Summary of national performance reports and briefings 2021/22

May

Local government in Scotland Overview 2021

June

Covid 19: Personal protective equipment

July

Community justice: Sustainable alternatives to custody

September

Covid 19: Vaccination programme

January

Planning for skills

Social care briefing

February

NHS in Scotland 2021

March

Local government in Scotland: Financial Overview 20/21

Drug and alcohol: An update

Scotland’s economy: Supporting businesses through the Covid 19 pandemic

Fife Pension Fund

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Fife COUNCIL

Fife Pension Fund

Administered by Fife Council

Fife Pension Fund
Annual Report & Accounts 2021-22

Fife Pension Fund Annual Report & Accounts 2021-22

Contents	Page

MANAGEMENT COMMENTARY

Introduction

Welcome to the Annual Report and Accounts for the 2021-22 Local Government Pension Scheme (LGPS) administered by Fife Council. The report is intended to keep members, employers, pensioners and other interested stakeholders informed about the management and performance of the Pension Fund.

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

Strategy and Business Model

As explained in the Funding Strategy Statement that can be accessed at: www.fifepensionfund.org, 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 25).

Principal Risks and Uncertainty

There are two main sources of uncertainty that affect whether the fund holds sufficient funds to pay future pension; the cost of future pensions and the value of investments, this risk is of increased significance given the recent market fluctuations experienced following the COVID-19 pandemic and more recently the impact of rising inflation and the global impact of the geo-political situation in Europe. The risk of failing to make adequate provision for the future is managed by having an independent actuary value the liabilities of the fund every three years and set contribution rates (see Actuarial Statement on page 25). The risk of losing money on investments is managed by having an independent investment adviser review the Fund's investment strategy periodically and by diversifying assets by dividing them between several separate investment management firms, chosen to ensure a range of investment styles as set out in the Investment Management Arrangements section of this report (see page 4). The principal risks facing the fund are described in more detail in the Statement of Investment Principles (Appendix 1).

Overview of Fund Business

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

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

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

A list of employers who contribute to the Fund as either scheduled or admitted bodies, can be found in the 'Membership of the Fund' section of this report (see page 55).

Review of the Year

Key Facts and Figures

2021-22 Key Highlights	• £3,531m net assets an increase of £228m on 2020-21 • Performance return of 6.3% for 2021-22 and 10.1% for the rolling 3 year period • Fund continues to exceed its strategic investment return objective over the rolling 3-year period • 37,991 members an increase of 1,502 • Funding level 97% at Valuation 2020

Table 1 Financial Highlights

Financial Highlights	**2021-22 £m**	**2020-21 £m**	**Change £m**
Value of Fund	3,531,319	3,303,160	(228,159)
Operational (Surplus)/Deficit	(228.159)	(767.572)	539.413
Employers Contributed	92.227	85.323	6.904
Employees Contributed	22. 671	20.440	2.231
Pensions and Other Benefits Paid out	93.741	86.723	7.018
Transfer values paid in	(1.965)	(2.335)	0.370
Transfer values paid out	3.616	7.376	(3.760)

Table 2 Investment Highlights

Investment Highlights	**2021-22**	**2020-21**
Investment Return	+6.29%	+29.73%
Performance v Benchmark	-2.66%	+10.44%

The fund has experienced a significant change in value of £228.159m represented by a significant gain in capital value of investments of £194.926m (2020-21 gain £747.065m) coupled with income from dividends and interest of £28.662m (2020-21 £24.222m). The fund experienced a net surplus of £21.243m (2020-21 £13.803m) from dealings with members. .

Fife Pension Fund complies with CIPFA guidance in terms of accounting for and disclosing investment management expenses. Details are disclosed in Notes 9 and 9a of the accounts. This guidance has been updated for 2021-22 and now discloses the transaction costs by different investment category.

The Transaction costs for 2021-22 are reported as £4.341m (2020-21 £2.584m), these reflect the cost of the investment activity of the fund to achieve its objectives.

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

To demonstrate its continued commitment to ensuring value for money, the fund also took part in CEM Benchmarking exercise for 2020-21 and the results were reported to Committee in March 2022. The results demonstrated that the fund Investment Costs were slightly above other funds as a result of the implementation style. The results also demonstrated a net 7 year return above the LGPS median.

Investment Management Arrangements

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

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

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

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

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

The current Investment Strategy of the fund was approved by the then Superannuation Fund & Pensions Sub Committee in June 2021 and is set out in the SIP (Appendix 1)

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

Table 3 Investment Strategy

Policy Group	Current Strategy %	Permitted Range
Equities	55	45%-65%
Real Assets	15	10%-25%
Non-Gilt Debt	15	5%-25%
LDI (formerly Gilts)	15	5%-25%
Cash	0	0%-15%
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 Committee.

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

Responsible Investment Activities

Throughout 2021-22, the Fund has taken positive steps in terms of responsible investment priorities. For the first time the Committee approved the Statement of Responsible Investment Principles (SRIP) which sets out to clarify the Fund's agreed approach to Responsible Investment. The statement will also be used as a guide for investment decision making.

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

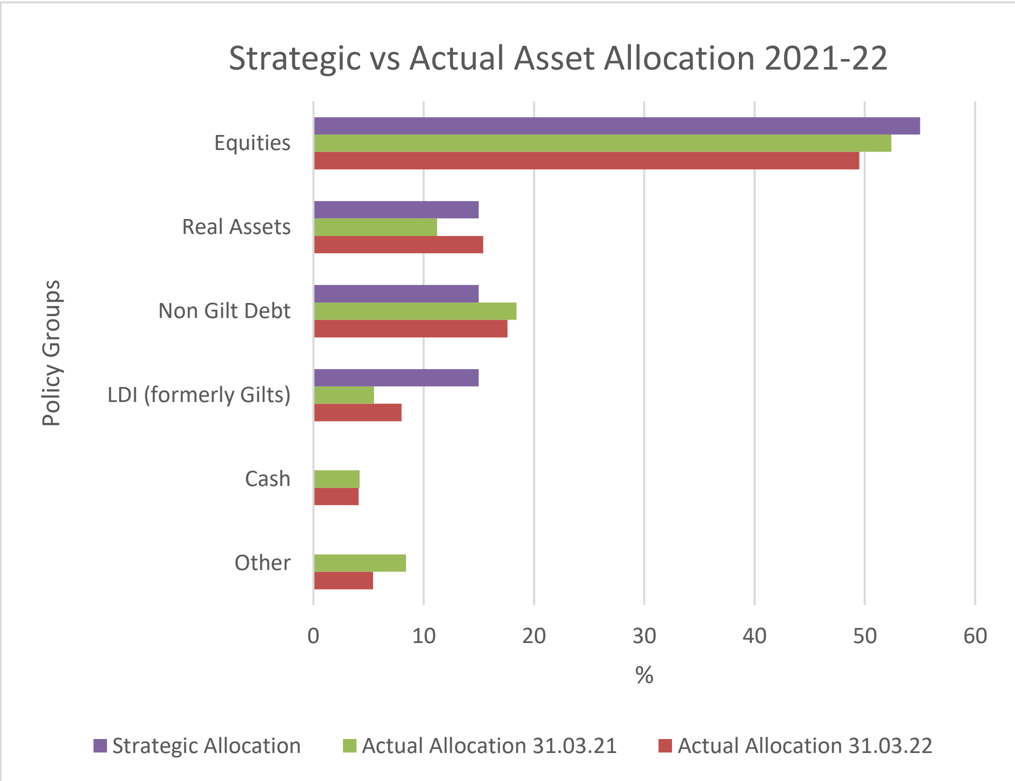
Since approval of the SRIP the fund has joined Climate Action 100 as well as continuing to participate in the Scottish Responsible Investment Group adopting a collective approach.

The fund also appointed Hermes EOS as voting and engagement partner.

Implementation of Investment Strategy and Investment Performance

The value of the Fund's net assets increased to £3.531bn

The allocation for the year to 31 March 2022 summarised in the following graph where it is demonstrated that relative to asset allocation, the Fund was underweight in equities, LDI and non-glit debt and overweight in Cash with Real Assets being on target.



Throughout 2021-22, the Fund undertook some changes to the investment allocation as it continued to make steady progress on the implementation of the agreed investment strategy. Over the course of the financial year the fund disinvested £200m from Equities and Other Policy Groups with the proceeds being invested into LDI (£100m) and retained as cash (£100m). The fund also undertook transition activity, aligned to the agreed investment strategy.

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

The cash balance at 31 March 2022 was £146m (4.1% of Fund Assets). Committed amounts to Partners Group and other private managers not yet funded were £69m. This leaves an uncommitted cash balance of £77m (2.2% of Fund Assets).

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

Table 4 Asset Allocation per Fund Manager

Policy Group	Manager	Current Allocation (£m)	Current Allocation (%)	Target Allocation (%)	Difference (%)
Equities		**1,748**	**49.5%**	**55%**	**-5.5%**
	Blackrock	541			
	Baillie Gifford	342			
	LPFI GLOVE	241			
	State Street	624			
Other Real Assets		**544**	**15.4%**	**15%**	**0.4%**
	CBRE Property	268			
	Infrastructure (Partners, various)	276			
Non-Gilt Debt		**622**	**17.6%**	**15%**	**2.6%**
	Janus Henderson Corporates	92			
	Western Asset Corporates	91			
	LGIM 6A Corporate Bonds	96			
	LGIM 5YR+ US Index-linked	308			
	Private Debt	35			
LDI (Formerly Gilts)		**283**	**8.0%**	**15%**	**-7.0%**
	Janus Henderson Gilts	190			
	Western Asset Gilts	93			
Balanced/Diversified		**190**	**5.4%**	**0%**	**5.4%**
	Baillie Gifford	190			
Cash		**146**	**4.1%**	**0%**	**4%**
Total Fund		**3,533**	**100%**	**100%**	

Source: Northern Trust

Performance of the fund for 2012-22 resulted in a net gain in asset value of £228.159m with the fund underperforming against its benchmark of 8.95% by -2.66% over a rolling 12 month period.

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

Table 5 Fund Performance

Returns	1 Year (2021-22) %	3 years % per annum	5 Years % per annum	Inception % per annum*
Fund Return	6.3	10.1	8.8	8.5
Benchmark Return	8.9	6.9	5.8	7.8
Excess Return	-2.7	3.2	3.0	0.7

Source: Northern Trust

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

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 advisers from Lothian Pension Fund Investment (LPFI) and can be found at Appendix 3.

Structure of Administration

The Pensions Team

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

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

The administration function covers a range of activities including:-

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

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

Service Delivery during the year

The COVID-19 pandemic continued to have a significant impact on how the team worked in 2021/22 but the team remained focused on delivering pension benefits and supporting members and employers. Service delivery continued to be provided mainly by home working with team members offered some office access days from 23 August 2021 as part of Fife Council's Blended Workstyles pilot.

It has been a very busy and challenging year for the team as it continued to pay pension benefits and carry out a range of administrative functions whilst responding to the changing regulatory landscape of the LGPS. The team continued to train staff and develop and refine processes but, because of the enforced change to the way the team had to deliver its services, some developmental projects were postponed.

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 are encouraged to obtain a Certificate in Pensions Administration through the Chartered Institute of Payroll Professionals. This means that 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. In-house training and Aquila Heywood training sessions were delivered during the pandemic using Microsoft Office Teams.

Training sessions were also provided for the Committee and Board including

- Internal Investment Strategy and Fiduciary Duty
- LDI Investment
- Scottish LGPS Training – Administration. Governance and Investment
- Annual Report and Accounts
- Fossil Fuels and Responsible Investment
- Cost Transparency and CEM Benchmarking

Statutory Framework of the LGPS

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

The scheme benefits are set out in the Local Government Pension Scheme (Scotland) Regulations 2018 which are available here

https://scotlgpsregs.org/schemeregs/lgpsregs2018/timeline.php

Administration Performance

Pension Administration Strategy Statement

The team are collaborating with Hymans Robertson, the Fund's Actuary, to review and develop a new Pension Administration Strategy Statement with the aim of receiving Committee approved later in the year.

The current Statement effectively consolidates all roles, responsibilities and expected performance targets for the team and scheme employers in one document. The strategy recognises that both the Administering Authority and Scheme employers must co-operate to provide an efficient and effective service to scheme members. The statement can be accessed at: Administration Strategy | Fife Pension Fund

Performance Standards

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

Results of performance against KPI targets in 2021-22 are shown below:-

Table 6 Performance Indicators 2021-22

Membership Transactions	Target Days	Target	Within Target
Correspondence	10	100%	98%
Refunds	5	98%	89%
New Members	20	80%	99%
Provide Ill Health Estimates	13	97%	75%
Provide Redundancy Estimates	13	97%	96%
Retirals	5	95%	98%
Transfer in	10	92%	86%

The challenges resulting from the transformation of working practices continued to impact on areas of service delivery in the early part of the year. Some delays were experienced while the team prioritised the processing and payment of retirement and death benefits in accordance with guidance from The Pensions Regulator. Team members are now fully trained on refund processing and a revised early leaver process was implemented from December 2021.

The review of the team's KPIs was paused in 2021-22 to facilitate a review and development of an updated Administration Strategy which is being prioritised by the team. Pausing the KPI review ensures these developments are joined up and that the KPIs reported link to the agreed strategy. The review is comprehensive in its approach and will consider a number of good practice points that have been identified.

Administration Review

In 2021-22 the Fund initiated a comprehensive review of scheme administration. An internal review by team members was followed by an independent review carried out by Hymans Robertson. The aim of the review is to ensure that the Team continues to meet its service requirements to members and employers. The Fund recognised that service delivery is set against a backdrop of LGPS complexity, increased governance and reporting requirements, and the impact of legal cases such as the McCloud ruling on pension administration functions.

The key findings and recommendations of both the internal and independent review covered areas such as the role of team members, work processes, Fund policies and whether the current team structure is fit for purpose given the increasing levels of service demands. An action plan is being developed with a view to addressing these areas over the coming year to 18 months.

Statutory Annual Benefit Statements

Despite the move to homeworking, the team met the statutory deadline of 31 August for issuing 99.97%annual benefit statements. Thanks to our employers for the timeliness and quality of data provided.

A breach was identified and reported on the Breaches Log. The breach was failure to issue 100% of Annual Benefit statements to all members by 31 August 2021. As a result of changes in processes following the implementation of a new payroll system in the largest employer, some initial teething problems were experienced which meant 52 Annual Benefit statements were not issued by the statutory deadline. This represented 0.3% of active members and the breach was reported to Committee but not deemed significant and as a consequence, was not report to the Pension Regulator.

Use of Information Technology

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

Unfortunately the challenges encountered as a result of the pandemic meant that the team was unable to progress with rolling out i-connect to our other employers. However, the team will resume this project during 2022-23.

Fife Council, the Fund's largest employer, moved to a new payroll system in 2020-21. The team is continuing to liaise with the Council's payroll implementation team on the data submission from the new payroll platform.

The on-going restrictions also impacted on the project to roll out the Member Self Service facility to all our pensioner members. However, Member Self Service has been enhanced to allow those pensioner members registered for Member Self Service to download their P60 statements and payslips.

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.

A new look Fund website was launched in October 2021. The website is developed and maintained by Hymans Robertson. The new site provides greater search functionality and requires less reliance on Hymans Robertson's web support staff. Team members were heavily involved in the lead up to the launch to ensure documentation was transferred over to the new platform, and to familiarise themselves with the new functionality.

The team continues to update the site to ensure scheme information and literature are readily available. News articles, ranging from Fund specific information to bulletins highlighting general pension issues, are available on the website.

Since a return to business as usual environment, communication channels have adapted. Team members were provided with Cisco jabber phones in 2021-22 so members and employers can call the team directly as an alternative to emailing. Microsoft Office Teams meetings are also carried out whenever possible. Telephone calls and Microsoft Office Teams meetings provide direct contact with members and employers giving reassurance that the team continues to provide a full pension service. Face to face meetings are possible by appointment.

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

The principal communications with active and deferred members are the annual benefit statements and newsletters. These communications are available on-line through the Member Self Service facility although paper copies are available on request. The team has 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.

The Fund is required to have a formal written communications statement which can be viewed at Appendix 2 and also at www.fifepensionfund.org

Working with Scheme Employers

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

The 2021 Employers' Forum was held on 3 February 2021 on Microsoft Office Teams. The Forum was held earlier than normal so that the Fund Actuary could discuss the results of the 2020 valuation. It is anticipated that the 2022 Forum will be held in Autumn 2022.

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

Amendments to the 2018 Regulations

Following a consultation exercise, The Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022 came into force on 1 June 2022.

These Regulations change the rules for calculating pre-April 15 survivor pensions in response to two court cases: Walker v Innospec and Goodwin v Department for Education. The changes place surviving same-sex civil partners, survivors of married same-sex couples and male survivors of female married members in a similar position to female survivors of male married members.

The regulations also amend The Local Government Pension Scheme (Scotland) Regulations 2018, to provide further flexibilities for fund authorities in dealing with employers and allow for amendments to an employer's contribution rate in between valuations.

The cost cap figure is also amended from 15.5% to 15.2% in the Scottish LGPS regulations, after the Government Actuary's Department (GAD) identified an error in their original calculation.

McCloud Ruling – Preparatory Work

The Public Services Pensions and Judicial Offices Act is the legal framework which allows for the retrospective changes (the remedy), required by the McCloud ruling to be made to the LGPS regulations. The SPPA has advised that amendment regulations ,which will set out the regulatory remedy, are expected to be made later this year.

The Fund has appointed a team member to lead the McCloud project and a project plan has been developed. Team members have tested the McCloud tools and reports developed by the Fund's pension software supplier. The Team held meetings with all employers informing them of the data gathering and information they are required to provide for the project. The team agreed with employers timescales for data to be submitted.

The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021

These regulations introduce further legal restrictions to a member's statutory right to transfer their deferred benefits. The regulations give administering authorities tools to act where suspicions about the circumstances that have prompted the transfer request are identified. Specific checks must be made which will determine whether a transfer request meets the conditions set out in the Regulations.

The team has reviewed its transfer processes and communications in line with the new regulations

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 0.5% effective from 12 April 2021 . The increase was set by reference to the annual change in the Consumer Price Index measured as at September 2020.

CARE Scheme Revaluation

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

In accordance with The Public Service Pensions Revaluation (Prices) Order 2020, the in-service revaluation of 0.5% in respect of the scheme year was applied at one second after midnight on 31 March 2021.

National Fraud Initiative

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

Tell Us Once (TUO)

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

Internal Dispute Resolution Cases

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

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

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

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

Appeals Against Employer Decisions in 2021-22.

Reason for Appeal	Number	Decision
Appealing employer's refusal to grant ill health retirement	2	1 appeal successful 1 appeal pending
Appealing against level of ill health benefits	8	1 appeal successful 1 appeal upheld by the Scottish Ministers 4 appeals unsuccessful 2 appeals pending

Appeal against Fund Decision

Reason for Appeal	Number	Decision
Non-Payment of Children's Pensions	1	Appeal Successful

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Fund Update

Membership details are shown below:-

Member Status	2021-22	2020-21
Active roles	15,524	15,008
Pensioners	14,677	14,130
Deferred role	7,790	7,351
Total	**37,991**	36,489

The fund invested and administered pensions on behalf of 20 current and former employers during 2021-22. 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 55 of the Annual Report and Accounts for the Funds.

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. The Fund is 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 2021-22. 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.

Steven Grimmond
Chief Executive

Eileen Rowand MBA CPFA
Executive Director Finance and Corporate Services

Councillor Dave Dempsey
Convener of Pensions Committee

FIFE PENSION FUND ANNUAL GOVERNANCE STATEMENT

Roles and Responsibilities

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

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

Fife Council carries out its role as Administering Authority via

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

Scope of Responsibility

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

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

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

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

Governance Framework

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

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

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

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

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

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

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

Pensions Committee

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

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

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

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

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

Frequency of Committee Meetings
Meetings of the Committee are quarterly. Occasional ad-hoc meetings are also held as required. Committee meeting dates are listed on the Council committee diary which is available at www.fifedirect.org.uk/Committees.

The Fife Pension Board

The Pension Board has been established to assist Fife Council:

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

The Board comprises 4 employee representatives appointed by Trade Unions and 4 employer representatives. It meets concurrently with the 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

Executive Director of Finance and Corporate Services

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

- Safeguard the contributions made by employees and employers to provide funds to meet the future liabilities of the Fund's members.
- Ensure control over the investment managers charged with growing the value of the fund to meet the future liabilities; and
- Secure 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: -

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

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

The Service Manager – Internal Audit & Risk Management Services, provides the required assurance over the adequacy of internal controls, risk management and the corporate governance arrangements operated by the Fund.

Pension Governance Group (PGG)

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

External Advisers

Following a recent procurement process, Hymans Robertson were appointed as the actuary to the Fund and provides advice on funding and actuarial valuations.

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

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

Fife Pension Fund works in collaboration with City of Edinburgh Council for the provision of investment advice from its arms-length organisation LPFI Limited, the investment services company owned by Lothian

Pension Fund. This is the fourth year of collaboration and officers have continued to participate in the Joint Investment Strategy Panel (JISP).

Investment advice and services are provided by LPFI Limited and, two independent Investment Advisers as members of the JISP. The independent advisers provide direct advice to the Head of Finance and also provide training for Committee and Board members from time to time. The JISP meets on a quarterly basis and there is regular dialogue with officers of LPFI Limited out with these meetings. The Investment Strategy for the Fund is approved by the Pensions Committee. Implementation of the strategy is delegated to the Head of Finance, who takes advice from the JISP and the independent advisers before assessing the risk and return and managing the implementation process. Following the retirement of one independent adviser, the JISP now operates with two independent advisers, this will be kept under review for the next 12 months.

Throughout 2021-22, the relationship with LPFI Limited expanded to increase the use of LPFI's internal investment management capabilities with LPFI Limited now acting as a Fund Manager for some of the investment portfolios. This is in line with the collaboration arrangements.

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

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

The Fund continues to implement responsible ownership, and this is recognised in the SIP and the Statement of Responsible Investment Principles (SRIP). During the year the Committee agreed to re-appoint Federated Hermes Equity Ownership Services. Federated Hermes EOS helps institutional owners around the world to meet their fiduciary responsibilities and become active owners of public companies. Federated Hermes EOS undertakes engagement with businesses on areas of concern and are actively involved in lobbying for improved governance in companies around the world. Following a joint procurement process with partners, Lothian Pension Fund and Falkirk Pension Fund, the contract for stewardship and engagement services was awarded in 2021 for a 4-year period to July 2025 with an option to extend to July 2027.

In September 2021, following a tender process, the Council appointed an Independent Professional Observer (IPO) to provide support and guidance to both the members of the Committee and the members of the Pension Board to assist them in discharging their duties in relation to the Pension Fund. The IPO has attended all Committee meetings and participated in internal training events since that date, as well as attending most of the Pension Board meetings

Review of effectiveness

Internal Control

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

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

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

The Council reviewed its risk management policy which is specific to the Fife Pension Fund. This is supported by the pension fund risk register. The fund specific risk register is reviewed by the PGG and is subject to regular update. The current risk register is considered by the Committee and Board on a quarterly basis.

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

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

Update on Significant Governance issues Previously Reported

There were no significant governance issues in 2021-22 specific to the Fife Council Pension Fund. Nor were there any significant governance issues within the Councils governance statement of relevance to the Fife Council Pension Fund.

Internal Audit Opinion

During 2021-22 the following assurance reviews were undertaken

- Pensions Contributions
- Performance Management
- Pensions Investigation Report

Based on the audit work undertaken, it is the opinion of Internal Audit that reasonable assurance can be placed on the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control for the year to 31 March 2022.

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

Significant Governance Issues

Fife Council Audit Services has confirmed there are no significant governance issues that require to be reported as a result of work undertaken by Internal Audit in 2021-22.

The Fund's Breaches of the Law policy statement can be viewed at www.fifepensionfund.org.

Governance Compliance

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

Access to Information

- The Committee agenda papers and minutes can be viewed at 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

Governance Arrangements – Areas of Improvement and Development

A number of areas of improvement were identified for 2021-22 and beyond. The following sections provides details of those completed and an action plan for future developments to be targeted.

Completed Improvements

- The Pensions Committee has received training covering investments, governance and an introduction to the LGPS. A training policy was agreed by the Committee which formalises the training arrangements for Committee and Pension Board members. The policy sets out the training required to ensure members have the appropriate skills to adequately carry out their roles. Induction training is provided to new Committee and Board members.

- 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.

- During 2020 an assessment of training needs was carried out with members of the Committee and the Board asked to assess their current knowledge and understanding of all relevant topics. The results of the assessment are being used as a basis for arranging future training and development sessions.

- Throughout 2021-22 training sessions have been provided to the Committee and the Board covering:
  - Investment Strategy, Fiduciary Duty and Sustainability
  - Scottish LGPS Training -Governance and Investments
  - Scottish LGPS – Pensions Administration
  - Pension Fund Annual Reports, Accounts and Control Reports
  - Fossil Fuels & Responsible Investment
  - Cost Transparency and CEM benchmarking

- In May 2021, officers from the PGG provided induction training to new members of the Pension Board. The training covered governance arrangements, investments, LGPS regulations and administration of the scheme. Induction training was also carried out on 23 June 2022 following the Local Government Elections and appointment of new members to the Committee. Members were also invited to training session on Audit and Risk on 09 June 2022.

- The Fife Council List of Committee Powers has been updated to include the full Terms of Reference for the Pension Board. This will highlight the differences in roles and responsibilities between the Committee and the Board

- An Independent Professional Observer has been appointed to provide support to the Committee and Pensions Board.

- CEM benchmarking and Cost Transparency was undertaken and reported to Committee.

Future Developments and Improvements

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

Development	Responsible Officer	Timescales
A series of training events complimenting committee business will continue for Committee and Board members. This will be done in line with the training policy and will recognise the number of new committee and board members following the recent local elections.	Finance Operations Manager	Ongoing
Recognising that there is only partial compliance in relation to attendance at relevant training events, the training policy will be kept under review, particularly in relation to regulatory requirements in this area and the need for mandatory participation in training. This will include reviewing consequences resulting from under performance in this area.	Finance Operations Manager	September 2022
The PGG will consider prominence for the Committee of compliance with Code of Practice 14.	Head of Finance	Ongoing

Development of a Business Plan for the Fund	Head of Finance	September 2022
Review of Administration Strategy and the associated KPIs	Finance Operations Manager	March 2023
Review of all governance documentation	Finance Operations Manager	Ongoing
Administration Service Review in conjunction with Hymans Robertson	Pensions Team Leader	September 2023

Certification

It is our opinion, considering the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance. We consider the governance and internal control environment operating during the financial year from 1 April 2021 to 31 March 2022 to provide reasonable and objective assurance. Any significant risks impacting on the council as administering authority and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified, and actions have and will be taken to avoid or mitigate the impact of any such risks.

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

Steven Grimmond
Chief Executive

Councillor Dave Dempsey
Convenor of the Pensions Committee

Governance Compliance Statement

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
		Structure		
1.1	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Responsibility rests with the Pensions Committee, a Committee of Fife Council. The Council's List of Committee Powers sets out the Committee's remit.	Yes	
1.2	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The Committee is made up of 9 councillors from Fife Council. The establishment of the Pension Board has formalised the involvement of employers and trade unions representing the 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;	An Independent Professional Observer was appointed in 2021 and attends each Committtte meeting and Pensions Board meeting.	Yes	
	and			
	iv) expert advisors (on an ad-hoc basis)	Expert Advisers attend routinely as required	Yes	
2.2	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All Committee members and Board representatives receive the same access to all papers and training and are given the opportunity to contribute, challenge and debate fully in the decision making process.	Yes	
		Selection and Role of Lay Members		
3.1	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	All new members of the Committee are required to attend induction training, which also provides them with guidance from the Council’s Democratic Services Division about their role and responsibilities.	Yes	
3.2	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	This is a standing item on every Committee agenda.	Yes	

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

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
6.3	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employer Forum held annually. The Pension Board formally provides for stakeholder involvement.	Yes.	
		Access		
7.1	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members, Board representatives and observers are treated equally in terms of access to papers, documents and advice.	Yes	
		Scope		
8.1	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference of the committee includes all pension related matters within the terms of Local Government Pension Scheme legislation and the Pensions Regulator requirements.	Yes	
		Publicity		
9.1	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	The Annual Governance Statement and Governance Compliance statement are available on the 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 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 2021. In summary, the key funding principles are as follows:

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

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

Funding Position as at the last formal funding valuation

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

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

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

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

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

* Currently aged 45.

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

Experience over the period since 31 March 2020

Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but recovered very strongly in 2020 and 2021. Due to the war in Ukraine, early 2022 resulted in volatile markets, which affects values at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be significantly better than that reported at the previous formal valuation as at 31 March 2020.

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

Robert Bilton FFA

For and on behalf of Hymans Robertson LLP
25 May 2022

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

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 13 December 2022.

I certify that these Annual Accounts were approved for signature by, or on behalf of, the authority.

Signed on behalf of Fife Council

Councillor Dave Dempsey
Convener of 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 2022.

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.

2020-21			2021-22
£m		Notes	£m
	Dealings with members, employers and others directly involved in the fund		
(105.763)	Contributions Receivable	6	(116.874)
(2.335)	Transfers in from other pension funds		(1.965)
(108.099)			(118.839)
86.723	Benefits Payable	7	93.741
7.572	Payments to and on Account of Leavers	8	3.855
94.295			97.596
(13.803)	**Net (additions)/withdrawals from dealings with members**		**(21.243)**
17.353	Management Expenses	9	16.327
3.550	**Net (additions)/withdrawals including fund management expenses**		**(4.916)**
	Returns on investments		
(24.222)	Investment Income	10	(28.662)
0.165	Taxes on income		0.345
(747.065)	(Profit) and losses on disposal of investments and changes in the market value of investments	11a	(194.926)
(771.122)	**Net return on investments**		**(223.243)**
(767.572)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(228.159)**
2,535.587	Opening net assets of the scheme at 1 April		3,303.159
767.572			228.159
3,303.159	**Closing net assets of the scheme at 31 March**		**3,531.319**

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 2022.

2020-21 £m		Notes	2021-22 £m
	Investments		
3,306.884	Investment Assets	11b	3,537.504
(0.456)	Investment Liabilities	11b	(3.677)
3,306.428	**Total net investments**		**3,533.827**
	Current Assets		
3.793	Contributions due from Employers		1.692
0.758	Cash Balances		3.525
0.323	Debtors	17	0.300
4.873			5.517
	Current Liabilities		
(3.694)	Unpaid Benefits		(3.489)
(4.447)	Other Current Liabilities		(4.536)
(8.142)			(8.025)
(3.269)	Net Current Assets & Liabilities		**(2.508)**
3,303.160	**Net Assets of the fund available to fund benefits at the end of the year**		**3,531.319**

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 2022 and the audited accounts were authorised for issue on the 13th December 2022.

Eileen Rowand
Executive Director Finance and Corporate Services

Notes to the Fife Pension Fund Accounts for the year ended 31 March 2022

1 Description of Fund

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

General

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

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

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

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

Membership

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

Organisations participating in the fund include the following:

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

Fife Council Pension Fund	31 March 2021	31 March 2022
Number of employers	21	20
Number of employees in scheme		
Fife Council	13,045	13,504
Other employers	1,963	2,020
Total	**15,008**	**15,524**
Number of pensioners		
Fife Council	12,884	13,303
Other employers	1,246	1,374
Total	**14,130**	**14,677**
Deferred Members	**7,351**	**7,790**
Total number of members	**36,489**	**37,991**

1 Description of Fund (continued)

Changes in Membership

In 2021, Fife Pension Fund offered Communtiy Admitted Bodies the opporturnity to cease participation in the pension fund with the exit payment being assessed on an ongoing basis as opposed to a gilts cessation basis. The offer was on the basis that Fife Council accepts the small employers liabilities and assets as its own.

One employer exited the fund on this basis in 2021-22:

- Poppyview exited the fund on 25th July 2021

Funding

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

Scheme Benefits

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

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

The following table gives a summary of scheme benefits

Membership up to 31 March 2009	Membership from 1 April 2009 to 31 March 2015	Membership from 1 April 2015
Annual Pension = (Service years / days x Final Pay) / 80	Annual Pension = (Service years / days x Final Pay) / 60	Annual Pension = Annual Pensionable pay/49
+	+	+
Automatic tax-free cash lump sum = 3 x pension	No automatic tax-free cash lump sum but can convert pension	No automatic tax-free cash lump sum but can convert pension
+	+	+
- Annual revaluation and pensions increase in line with CPI inflation - Partners' and dependents' pensions - Ill health protection - Death in service protection		

2 Basis of Preparation

The statement of the accounts summarises the fund's transactions for the 2021-22 financial year and its position at the year end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 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 2021-22, (the Code) which incorporates the International Financial Reporting Standards, in particular International Accounting Standard (IAS) 26 Retirement Benefit Plans, the accounting standard applicable for Pension Funds. The Code also adopts parts of the Financial Reports of Pension Schemes - Statement of Recommended Practice 2018, such as the format of the accounting statements.

b) Accruals

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

c) Valuation of Investments

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

d) Foreign Currency Transactions

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

e) Contributions and Benefits

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

f) Transfer Values

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

g) Investment Income

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

h) Administrative and Investment Management Expenses

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

i) Cash and Cash Equivalents

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

j) VAT

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

k) Taxation

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

l) Financial Assets

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

3 Statement of Accounting Policies (continued)

m) Financial Liabilities

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

n) Actuarial Present Value of Promised Retirement Benefits

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

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

o) Additional Voluntary Contributions (AVC)

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

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

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

p) Derivatives

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

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

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

q) Fair value measurement

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

r) Prior Year Adjustments

Prior year adjustments arise as a result of a change in accounting policy, where a material error was made or it is agreed between auditors and the Fife Pension Fund to change accounting estimation techniques. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts.

4 Critical Judgements in Applying Accounting Policies

Acturial present value of promised retirement benefits

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

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

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

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

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

6 Contributions Receivable

By Category

2020-21		2021-22
£m		£m
(20.440)	**Employees' Contributions**	**(22.671)**
	Employers' Contributions	
(82.480)	Normal contributions	(92.227)
(2.843)	Augmentation contributions	(1.976)
(85.323)	**Total employers' contributions**	**(94.203)**
(105.763)		**(116.874)**

By authority

2020-21		2021-22
£m		£m
(90.405)	Fife Council	(99.846)
(7.060)	Scheduled bodies	(8.049)
(8.298)	Admitted bodies	(8.979)
(105.763)		**(116.874)**

7 Benefits Payable

By Category

2020-21		2021-22
£m		£m
69.499	Pensions	71.858
14.341	Lump sum retirement benefits	18.528
2.883	Lump sum death benefits	3.356
86.723		**93.741**

By authority

2020-21		2021-22
£m		£m
78.579	Fife Council	83.162
3.457	Scheduled bodies	4.403
4.687	Admitted bodies	6.176
86.723		**93.741**

8 Payments to and on Account of Leavers

2020-21		2021-22
£m		£m
0.195	Refunds to members leaving service	0.239
0.001	State Scheme Premiums	(0.000)
	Transfers to other Schemes	
3.535	Individuals	3.616
3.841	Visit Scotland	0.000
7.572		**3.855**

9 Management Expenses

2020-21		2021-22
£m		£m
1.872	Administrative costs	1.736
14.594	Investment management expenses	13.991
0.887	Oversight and governance costs	0.600
17.353		**16.327**

Included in the oversight and governance costs is the external audit fee of £0.039m (£0.038m 2020-21)

9a Investment Management Expenses

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

2020-21	Management Fees	Performance Related Fees	Transaction Costs	Total
	£m	£m	£m	£m
Pooled Investments	2.511	0.000	1.875	4.386
Equities	2.829	0.000	0.030	2.859
Bonds	0.440	0.479	0.153	1.072
Pooled Property Investments	1.765	0.000	0.339	2.104
Private Equity/Infrastructure	1.883	1.920	0.187	3.989
Cash	0.000	0.000	0.000	0.000
	9.427	**2.399**	**2.584**	**14.410**
Custody Fees				0.184
				14.594

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

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

10 Investment Income

2020-21		2021-22
£m		£m
(5.692)	Fixed interest securities	(6.590)
(6.916)	Equity dividends	(7.541)
(7.137)	Pooled property investments	(8.242)
(1.719)	Pooled investments-unit trusts and other managed funds	(0.360)
(2.437)	Private equity	(5.637)
(0.111)	Interest on cash deposits	(0.028)
(0.210)	Securities Lending	(0.263)
0.000	Broker commissions recaptured	0.000
(24.222)		**(28.662)**

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 arsing 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.

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

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

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

2020-21	Value at 31 March 2020	Purchases (at cost) and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Value	Value at 31 March 2021
	£m	£m	£m	£m	£m
Fixed interest securities	270.064	47.668	(42.940)	(2.145)	272.647
Equities	725.091	197.012	(687.564)	435.751	670.289
Pooled Investments	1,110.992	396.729	(1.914)	314.215	1,820.022
Pooled Property Investments	217.098	8.204	(6.122)	(13.686)	205.494
Private Equity/Infrastructure	104.249	68.154	(16.469)	4.880	160.813
	2,427.493	**717.767**	**(755.009)**	**739.014**	**3,129.266**
Derivative contracts:					
Futures	(0.165)	4.675	(5.663)	1.148	(0.006)
Purchased/written options	0.000	0.000	0.000	0.000	0.000
Forward currency contracts	(0.374)	0.717	(0.826)	0.565	0.083
	2,426.954	**723.159**	**(761.498)**	**740.727**	**3,129.342**
Other investment balances	0.166			(0.569)	0.006
Cash deposits	110.668			(2.927)	174.697
Amount receivable for sales of investments	0.244			0.000	0.000
Investment income due	2.695			0.000	2.740
Amount receivable for pending spot FX	(0.002)			1.002	0.000
Amount payable for purchases of investments	(1.685)			(0.024)	(0.356)
Total Investment Assets	**2,539.039**			**738.209**	**3,306.428**

Trading gains and market value movements accounted for £747.065m per the Fund Account. This is different to the £738.209m reported above. The reason for this difference is £8.856m of indirect mangement expenses which have been included within note 9 to the accounts

11b Analysis of Investments

2020-21		2021-22
£m		£m
	Investment assets	
272.647	Bonds	369.831
670.289	Equities	578.569
	Pooled Investments	
479.009	Fixed income unit trust	496.503
1,341.013	Equity unit trust	1,364.939
205.494	Pooled property investments	242.641
160.813	Private equity/Infrastructure	299.640
0.000	Property	0.000
0.000	Diversified Alternatives	0.000
	Derivative contracts:	
0.094	Futures	0.164
0.000	Purchased/written options	0.000
0.083	Forward currency contracts	0.013
0.000	Swaps	0.000
174.697	Cash deposits	180.992
2.740	Investment Income due	3.819
0.000	Amounts receivable for sales	0.394
0.000	Amounts receivable for pending spot FX	0.000
0.006	Other Investment assets	0.000
3,306.884		**3,537.504**
	Investment liabilities	
	Derivative contracts:	
(0.100)	Futures	(0.106)
0.000	Purchased/written options	0.000
0.000	Forward currency contracts	(0.149)
0.000	Swaps	0.000
(0.356)	Amounts payable for purchases	(3.364)
0.000	Amounts payable for pending spot FX	0.000
0.000	Other Investment liabilities	(0.058)
(0.456)		**(3.677)**
3,306.428	**Total**	**3,533.827**

11c Investments Analysed by Fund Manager

Market Value 31 March 2021			Market Value 31 March 2022	
£m	%		£m	%
		Fund Mangers		
741.212	22.42	Baillie Gifford	531.731	15.05
187.923	5.68	Henderson Global Investors	282.009	7.98
188.462	5.70	Western Asset Management	183.999	5.21
690.378	20.88	Blackrock Investment Management (UK) Ltd	541.458	15.32
577.410	17.46	State Street Global Advisors	624.312	17.67
54.269	1.64	Partners Group	64.297	1.82
86.544	2.62	Other Infrastructure Managers	211.816	5.99
227.403	6.88	CBRE Global Investors	268.188	7.59
0.000	0.00	LPFI GLOVE	240.581	6.81
101.841	3.08	LGIM 6A Corporate Bond Fund	96.504	2.73
280.087	8.47	LGIM Over 5 Year US Index-Link	307.897	8.71
31.369	0.95	Private Debt	35.014	0.99
3,166.899	95.78		3,387.804	95.87
		Money Market Funds		
139.529	4.22	Northern Trust Money Market Fund	146.023	4.13
3,306.428	**100.000**		**3,533.827**	**100.00**

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

Market Value 31 March 2021			Market Value 31 March 2022	
£m	%		£m	%
478.154	14.46	Aquila Life UK Equity Index Fund, managed by Blackrock Investment Management (UK) Ltd	540.665	15.30
278.468	8.42	Baillie Gifford Diversified Growth Fund, managed by Baillie Gifford	190.226	5.38
577.410	17.46	MPF Fundamental Index Global Equity Fund, managed by State Street Global Advisors	624.312	17.67
280.087	8.47	CG - > 5Yr US Inflation-Linked Index	307.897	8.71

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 £91.856m (31 March 2021 £100.628m). 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 £94.140m (31 March 2021 £104.328m) representing 102.5% of stock lent. Collateral consists of acceptable securities and government debt.

2020-21		2021-22
£m		£m
63.135	Bonds	85.471
37.493	Equities	6.385
100.628		**91.856**

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 mangers.

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:

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

2020-21	Expires	Economic Exposure	Assets	Liabilities
			£m	£m
Fixed Income Futures				
Overseas fixed interest	one year	(1.824)	0.094	
UK fixed interest	one year	1.914		(0.020)
Overseas fixed interest	one year	1.686		(0.079)
		1.776	**0.094**	**(0.100)**

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

Open forward currency contracts

Settlements	Currency Bought	Local Value	Currency Sold	Local Value	Assets	Liabilities
		£m		£m	£m	£m
One to six months	USD	0.704	GBP	(0.856)	0.013	(0.001)
One to six months	GBP	4.133	USD	(5.612)	0.000	(0.131)
One to six months	GBP	1.926	EUR	(2.284)	0.000	(0.007)
One to six months	GBP	0.122	AUD	(0.230)	0.000	(0.010)
Open forward currency contracts at 31 March 2022					**0.013**	**(0.149)**
Net forward currency contracts at 31 March 2022						**(0.136)**
Prior Year Comparative						
Open forward currency contracts at 31 March 2021					**0.083**	**0.000**
Net forward currency contracts at 31 March 2021						**0.083**

13 Fair Value - Basis of Valuation

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

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

13a Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

13a Fair Value Hierarchy (continued)

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

Values at 31 March 2022	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	1,938.407	1,116.592	478.829	3,533.827
	1,938.407	**1,116.592**	**478.829**	**3,533.827**

Values at 31 March 2021	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	1,909.423	1,085.017	311.988	3,306.428
	1,909.423	**1,085.017**	**311.988**	**3,306.428**

13b Reconciliation of Fair Value Measurements within Level 3

	Market value 31 March 2021	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 2022
	£m	£m	£m	£m	£m	£m	£m	£m
Overseas Property Funds	0.007					(0.000)		0.007
Overseas Venture Capital	95.315			24.459	(5.497)	10.875	0.383	125.536
UK Fixed Income								0.000
UK Property Funds	142.404			13.882	(12.668)	22.815	0.959	167.392
Overseas Equities	1.782			1.944	(1.924)	0.093	0.159	2.054
UK Equities	6.981			2.537		0.218		9.736
UK Venture Capital	65.498			110.020	(2.210)	0.796		174.104
	311.988	**0.000**	**0.000**	**152.843**	**(22.298)**	**34.796**	**1.500**	**478.829**

14 Classification of Financial Instruments

31 March 2021				31 March 2022		
Fair value through profit and loss	Assets carried at Amortised Cost	Financial liabilities at amortised cost		Fair value through profit and loss	Assets carried at Amortised Cost	Financial liabilities at amortised cost
£m	£m	£m		£m	£m	£m
			Financial assets			
272.647			Fixed Interest Securities	369.831		
670.289			Equities	578.569		
1,820.022			Pooled Investments	1,861.442		
205.494			Pooled Property Investments	242.641		
160.813			Private Equity-Infraastructure	299.640		
0.176			Derivative contracts	0.177		
	174.697		Cash		180.992	
0.006	2.740		Other Investment balances	0.000	3.819	
	0.000		Debtors		0.394	
3,129.448	**177.436**	**0.000**		**3,352.300**	**185.205**	**0.000**
			Financial Liabilities			
		(0.100)	Derivative contracts			(0.255)
		0.000	Other Investment balances			(0.058)
		(0.356)	Creditors			(3.364)
0.000	**0.000**	**(0.456)**		**0.000**	**0.000**	**(3.677)**
3,129.448	**177.436**	**(0.456)**	**Total**	**3,352.300**	**185.205**	**(3.677)**
	3,306.428		**Grand Total**		**3,533.827**	

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. currencey, 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 2021 and 31 March 2020 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 2022	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
Overseas Equities	567.305	624.035	510.574
Overseas Unit Trusts	190.226	209.249	171.203
Overseas public sector bonds (quoted)	2.040	2.244	1.836
Overseas corporate bonds (quoted)	43.053	47.359	38.748
	802.624	**882.886**	**722.361**

Market Risk - currency risk 31 March 2021	Asset Value	Asset Value on increase of 10%	Asset Value on decrease of 10%
	£m	£m	£m
Currency Exposure-asset type			
Overseas Equities	660.057	726.063	594.051
Overseas Unit Trusts	278.468	306.315	250.621
Overseas public sector bonds (quoted)	2.024	2.226	1.821
Overseas corporate bonds (quoted)	43.606	47.966	39.245
	984.154	**1,082.570**	**885.739**

Interest Rate Risk

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

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

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

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

Market Risk - interest rate risk 31 March 2022	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)	6.03	139.693	131.268	148.118
UK corporate (quoted)	7.28	41.821	38.777	44.864
Overseas public sector (quoted)	11.52	2.040	1.805	2.275
Overseas corporate (quoted)	7.04	43.053	40.021	46.085
UK public sector index linked	10.76	143.224	127.807	158.641
Cash & cash equivalents				
Cash		180.992	182.802	179.182
Total		**550.823**	**522.480**	**579.165**

Market Risk - interest rate risk 31 March 2021	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)	13.57	93.113	80.473	105.752
UK corporate (quoted)	8.04	42.335	38.931	45.738
Overseas public sector (quoted)	11.90	2.024	1.783	2.264
Overseas corporate (quoted)	6.91	43.606	40.593	46.618
UK public sector index linked	22.18	91.570	71.261	111.880
Cash & cash equivalents				
Cash		174.697	176.443	172.950
Total		**447.345**	**409.484**	**485.202**

Other Price Risk

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

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

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

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

Market Risk - other price risk 31 March 2022	1 year expected volatility (%)	% of Fund	Asset Values assumed	Value on increase	Value on decrease
			£m	£m	£m
Asset Class					
UK Equities	19.90	15.31	540.80	648.419	433.181
Global Equities	20.10	34.19	1,207.60	1,450.328	964.872
Infrastructure	14.60	5.39	190.20	217.969	162.431
Property	15.00	7.60	268.60	308.890	228.310
Corporate Bonds (short term)	3.50	0.66	23.40	24.219	22.581
Corporate Bonds (medium term)	8.10	4.57	161.30	174.365	148.235
Corporate Bonds (long term)	9.90	1.60	56.50	62.094	50.907
fixed gilts (short term)	2.10	1.00	35.30	36.041	34.559
fixed gilts (medium term)	6.80	1.99	70.20	74.974	65.426
fixed gilts (long term)	9.20	3.26	115.30	125.908	104.692
UK index linked gilts (short term)	4.10	0.00	0.00	0.000	0.000
UK index linked gilts (medium term)	7.30	6.74	237.90	255.267	220.533
UK index linked gilts (long term)	9.20	4.76	168.20	183.674	152.726
Cash	0.30	4.12	145.60	146.037	145.163
Absolute Return/Diversified Growth	9.10	7.82	276.10	301.225	250.975
Commodities	0.00	0.00	0.00	0.000	0.000
Private Debt	9.00	0.99	35.00	38.150	31.850
		100.00	**3,532.000**	**4,047.559**	**3,016.441**

Market Risk - other price risk 31 March 2021	1 year expected volatility (%)	% of Fund	Asset Values assumed	Value on increase	Value on decrease
			£m	£m	£m
Asset Class					
UK Equities	16.70	14.47	478.300	558.176	398.424
Global Equities	17.40	37.91	1,252.700	1,470.670	1,034.730
Infrastructure	21.00	4.26	140.800	170.368	111.232
Property	14.20	6.89	227.800	260.148	195.452
Corporate Bonds (short term)	3.20	0.68	22.400	23.117	21.683
Corporate Bonds (medium term)	8.00	5.00	165.200	178.416	151.984
Corporate Bonds (long term)	9.90	2.00	66.200	72.754	59.646
fixed gilts (short term)	2.20	0.72	23.900	24.426	23.374
fixed gilts (medium term)	7.30	1.36	44.800	48.070	41.530
fixed gilts (long term)	9.90	1.68	55.500	60.995	50.006
UK index linked gilts (short term)	4.10	0.16	5.300	5.517	5.083
UK index linked gilts (medium term)	7.50	6.58	217.500	233.813	201.188
UK index linked gilts (long term)	9.50	4.45	147.000	160.965	133.035
Cash	0.30	4.46	147.500	147.943	147.058
Absolute Return/Diversified Growth	11.90	8.43	278.500	311.642	245.359
Commodities	0.00	0.00	0.000	0.000	0.000
Private Debt	4.60	0.95	31.400	32.844	29.956
		100.00	**3,304.800**	**3,759.862**	**2,849.738**

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

When estimating the volatility the Fund Asset Value at 31 March 2022 was assumed to be £3.532bn. The 1 year weighted average volatility was 11.0% at 31 March 2022, meaning the 'value on increase' would be £4.048bn and the 'value on decrease' would be £3.016bn.

16 Actuarial Valuation

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

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

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

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

	31 March 2021	31 March 2022
	£m	£m
Present Value of Promised Retirement Benefits	4,115.000	4,000.000

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 2021	31 March 2022
	%	%
Inflation / pension increase rate	2.85	3.20
Salary Increase rate	3.35	3.70
Discount rate	2.00	2.70

Demographic assumptions

	Males	Females
Future life expectancies assumed in the calculation		
Current Pensioners	20.1	22.9
Future Pensioners	21.2	24.9

Sensitivity Analysis

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

Change in assumptions at 31 March 2022	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount (£m)
0.1% decrease in the Discount Rate	2%	80
1 year increase in member life expectancy	4%	160
0.1% increase in the Salary Increase Rate	0%	9
0.1% increase in the Pension Increase Rate (CPI)	2%	70

17 Analysis of Debtors

2020-21		2021-22
£m		£m
0.239	Central Government	0.220
0.084	Other Debtors	0.080
0.323		**0.300**

18 Additional Voluntary Contributions (AVC)

2020-21 Contributions	Fund Value 31 March 2021		2021-22 Contributions	Fund Value 31 March 2022
£m	£m		£m	£m
0.109	1.064	Standard Life	0.140	1.184
1.086	4.351	Prudential	1.176	5.341
0.000	0.064	Clerical Medical	0.000	0.057
1.195	**5.479**		**1.315**	**6.582**

19 Related Party Transactions

Fife Council, the administering authority of the fund, also provides support services for the fund and in 2021-22 charged £1.645m (2020-21 £1.779m) for those services.

Fife Council paid employers' contributions to the Pension Fund of £81.193m (2020-21 £73.302m) and collected and paid over employees's contributions of £19.266m (2020-21 £17.102m)

Governance

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

19a Key Management Personnel

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

2020-21		2021-22
£m		£m
0.289	Salary, fees & Allowances	0.302
0.289		**0.302**

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

2020-21		2021-22
£m		£m
0.071	In year employer's pension contributions	0.071
	Accrued Pension Benefits	
0.129	Pension	0.136
0.212	Lump Sum	0.213

20 Events after the Reporting Date

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

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

There have been no events since March 2022 which require disclosure.

21 Contingent Assets and Liabilities

At 31 March 2022 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:-

- IFRS 16 Leases (but only for those local authorities that have decided to adopt IFRS 16 in the 2022/23 year).
- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:
    - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
    - IAS 37 (Onerous contracts) – clarifies the intention of the standard
    - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
    - IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

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

MEMBERSHIP OF THE FUND

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

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

The list of participating employers at 31 March 2022 is as follows: -

Scheduled Bodies

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

Admitted Bodies

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

Poppyview exited the fund on 25th July 2021 under the terms of the Small Employers Exit Proposal.

APPENDIX 1

FIFE PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1. Introduction

1.1 This Statement of Investment Principles (SIP) was agreed by the Superannuation and Pensions Committee (Committee) of Fife Council (FC) on 29 June 2021. 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 (Appendix 2).

2. Governance

2.1 FC has delegated responsibility for the supervision of the Funds to the Committee, which comprises nine elected members from FC. The Committee is supported by a statutory Pensions Board consisting of four Trade Union and four employer representatives, which is responsible for ensuring that the Fund operates in accordance with the applicable laws and regulations. The Committee and Board will be supported by an independent professional observer from September 2021.

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 The Fund demonstrate their open and transparent approach to Responsible Investing by publishing a Statement of Responsible Investment Principles (SRIP). This document explains how the Fund practise responsible investment asset class by asset class, and how it is committed to limiting the impact of climate change. The SRIP is published as a standalone document. It represents the Fund's position on Responsible Investment, and it forms part of the Pensions Committee's regular review of Stewardship and Engagement activities.

4.4 Another key strand of the 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.

4.5 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 2.

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 Fund's investment strategy is measured against strategy-specific benchmarks by an independent performance measurement specialist, and these are reported to Committee at least annually with reference to asset market returns as well as liability valuations. The

Executive Director of Finance and Corporate Services is responsible for monitoring investments and investment activity, and she delegates this function to the Head of Finance taking advice from the JISP, which meets at least quarterly.

7. Strategy Implementation

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

7.2 The Head of Finance, advised by the JISP, identifies the combination of investment managers and mandates within the policy groups to deliver the objectives of the Fund. The investment managers and mandates are listed in Appendix B.

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.

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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 D.

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 (29 June 2021)

FIFE PENSION FUND: INVESTMENT STRATEGY
Investment Objectives: to achieve a return and generate sufficient cash to pay pensions as they fall due.

Policy Group	Strategy	Permitted Range
Equities	55%	45%-65%
Real Assets	15%	10%-25%
Non-Gilt Debt	15%	5%-25%
LDI (formerly Gilts)	15%	5%-25%
Cash	0%	0%-10%
Total	**100%**	

Appendix B – Mandates and Managers

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

Policy Group	Mandate	Manager
Equities		
	UK Passive	Blackrock
	Global Low Volatility	Blackrock
	Global Growth	Baillie Gifford
	Global Fundamental Indexation	State Street
Real Assets		
	Property	CBRE
	Global Infrastructure	Partners Group
	Infrastructure LPs	Various
Non Gilt Debt		
	Corporate Bonds	Janus Henderson
	Corporate Bonds	Western
	Over 5 Years US Index Linked	Legal and General Investment Management
	Liquid Credit	Legal and General Investment Management
	Private Debt	Various
Gilts		
	Government Bonds	Janus Henderson
	Government Bonds	Western
Cash		
	Cash	Various
Other		
	Diversified Growth	Ballie Gifford

APPENDIX C – Statement of Compliance with UK Stewardship Code

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting transparency and integrity in business. It sets the UK's Corporate Governance and Stewardship Codes. The Funds' Statement of Compliance with the UK Stewardship Code is presented below:

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

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

In practice, our policy is to apply the Code through a) the appointment of Federated Hermes Equity Ownership Services (EOS); b) the work of external investment managers; and c) the work of the internal investment team where appropriate.

We believe that EOS at Federated Hermes enables us to provide the highest standards of stewardship on behalf of the beneficiaries of the Funds through their monitoring of shareholdings, so that we can fulfil our fiduciary responsibilities as long-term shareholders.

- EOS at Federated Hermes has the expertise to undertake corporate engagement on an international basis, and they do this for us. Their aim is to bring about positive long-term change at companies through a focused and value-oriented approach. Engagements undertaken by EOS at Federated Hermes on our behalf are guided by Hermes EOS Corporate Governance Principles.

- Through EOS at Federated Hermes, we also work to establish effective regulatory regimes in the various markets in which we invest to encourage governance structures that facilitate accountability of companies to their owners, give companies the certainty they need to plan for the future, and to level the playing field to ensure companies are not disadvantaged for prioritising long-term profitability.

External fund managers take direct responsibility for stewardship issues, including voting and engagement, in the funds which they manage on our behalf.

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

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

- We are supported in effectively managing conflicts of interest in relation to our stewardship work by EOS at Federated Hermes. EOS at Federated Hermes explains how it manages conflicts of interest on our behalf in its Stewardship conflicts of interest policy document.

- We also encourage the asset managers employed by the Fund to have effective policies addressing potential conflicts of interest.

- In respect of conflicts of interest within the Fund, Pensions Committee members are required to make declarations of interest prior to Committee meetings.

- Our policy of constructive engagement with companies is consistent with the Funds' fiduciary responsibilities.

Principle 3: Institutional investors should monitor their investee companies.

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

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

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

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

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

As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary.

- We expect the approach to engagement on our behalf to be value-orientated and focused on long term sustainable profitability. We expect EOS at Federated Hermes and External Fund Managers to disclose their guidelines for such activities in their own statements of adherence to the Code.

- Consistent with our fiduciary duty to beneficiaries and to encourage improved conduct in future, we consider participating in shareholder litigation where it appears likely that the Fund will recover losses (net of costs) sustained because of inappropriate actions by company directors.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

We seek to work collaboratively with other institutional shareholders to maximise the influence that we can have on individual companies. We do this through:

- The appointment of EOS at Federated Hermes, whose engagement service pools asset ownership with the aim of protecting and enhancing shareholder value. EOS at Federated Hermes represents us and other like-minded asset owners globally using its expertise to enhance our effectiveness in communicating with companies, industry bodies, regulators and legislators.

- Our preference is for managers to vote on the Funds' behalf and for responsible stewardship to be integral to the investment decision-making process. We are comfortable with delegation of voting to External Fund Managers for the funds they manage.

- For all other mandates, EOS at Federated Hermes votes consistently across the portfolios it covers, and makes voting decisions based on a thorough analysis of publicly available information and always taking account of a company's individual circumstances. EOS at Federated Hermes informs companies where it has concerns and seeks a resolution prior to taking the decision to vote against management. In this way, it uses our votes as a lever for positive change at companies. Underpinning voting decisions are EOS at Federated Hermes Regional Corporate Governance policies, which can be found in the following link:

  https://www.hermes-investment.com/uki/about-us/policies-and-disclosures/

- We are committed to disclosing our historic voting information on our website. This includes the total number of votes cast at which company meetings and whether the votes were cast for or against company management. We will disclose in arrears so that we are transparent and accountable but dialogue with companies in our portfolios is not compromised.

Principle 6: Institutional investors should report periodically on their stewardship and voting activities.

We are committed to report on our stewardship and voting activities:

- We are committed to reporting annually on stewardship and voting activity in the Funds' annual report and accounts and quarterly on our website.

- We are committed to also report annually on stewardship and voting activity directly to the Pensions Committee.

APPENDIX D – CIPFA Principles for Investment Decision Making and Disclosure

The Chartered Institute of Public Finance and Accountancy (CIPFA) published six Principles for Investment Decision Making and Disclosure in the Local Governance Pension Scheme in the UK in 2012. Details of the principles and the Funds' compliance are described below.

Principle 1 – Effective decision making

Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

- The Fund's Trustee Training provision provides the knowledge to enable them to evaluate and challenge the advice they receive. Standards relating to the administration of the Committee's business are strictly upheld.

- The Pensions Committee focuses on setting the strategy for the Fund and monitoring performance. The Pension Board also attends Committee meetings and is responsible for assisting the Committee in securing compliance with relevant regulations and other legislation.

- The Committee delegates the day-to-day running of the Fund to the Executive Director of Finance and Corporate Services, who in turn delegates to the Head of Finance and Funds' officers. The Executive Director of Finance and Corporate Services is responsible for the provision of training for Committee to help them to make effective decisions to ensure that they are fully aware of their statutory and fiduciary responsibilities, and to regularly remind them of their stewardship role.

- The Joint Investment Strategy Panel advises the Head of Finance on the implementation of the agreed strategies, reviewing structure, funding monitoring, performance and risk and asset allocation. The Joint Investment Strategy Panel meets at least quarterly and is made up of experienced investment professionals, including independent advisers.

- The in-house team undertakes day-to-day monitoring of the Fund. The team includes personnel with suitable professional qualifications and experience to provide the necessary skills, knowledge, advice and resources to support the Joint Investment Strategy Panel and the Pensions Committee.

- Conflicts of interest are managed actively. At each Committee meeting, elected members of the Pensions Committee and Pensions Board are asked to highlight conflicts of interest. A Code of Conduct applies to members of the Committee and the Pension Board. The Fund ensures conflicts of interest are highlighted and managed appropriately.

Principle 2 – Clear Objectives

Overall investment objectives should be set out for the fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.

- The Statement of Investment Principles and the Funding Strategy Statement define the Fund's primary funding objectives.

- Asset-liability modelling is undertaken with the help of external advisers to aid the understanding of risks and the setting of investment strategy.

- Employers' attitude to risk is specifically considered in the setting of strategy, and employers can request a bespoke investment strategy.

- Reviews of investment strategy focus on the split between broad asset classes (equities, gilts, other debt, other real assets and cash).

- Investment Management Agreements set clear benchmarks and risk parameters and include the requirement to comply with the Fund's Statement of Investment Principles.

- Appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contract. Procurement of advisers is conducted within European Union procurement regulations.

- The setting of the Funding Strategy includes specific consideration of the desire to maintain stability in employer contribution rates.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for council tax payers; the strength of the covenant of participating authorities; the risk of their default, and longevity risk.

- The Fund takes advice from the scheme's actuary regarding the nature of its liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength and longevity risk.

- The Fund will consider requests for such alternative strategies, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.

- The Funding objectives for the Fund is expressed in relation to the solvency and employer contribution rates. The Fund regularly assess the covenants of participating employers.

- The Executive Director of Finance and Corporate Services is responsible for ensuring the appropriate controls of the Fund. Controls are subject to internal audit, and results of audits are submitted to the Standards and Audit Committee.

- The Fund maintain a risk register, which is reviewed on a regular basis.

Principle 4 – Performance assessment

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

- The Fund's performance and risk analysis is produced by an independent external provider.

- The internal investment team monitors the external investment managers' performance and risk on a regular basis and reports this to the Joint Investment Strategy Panel. The Joint Investment Strategy Panel assesses the performance and risk of both internal and external investment managers on a regular basis (typically quarterly).

- The Fund's contracts with its advisers are regularly market tested.

- The Joint Investment Strategy Panel assesses its own performance on a regular basis and reports to Committee on its activities, typically annually.

- Training and attendance of members of the Pensions Committee and the Pensions Board are monitored and reported on a regular basis. The composition of the Committee and Pension Board is kept under review.

Principle 5 – Responsible ownership

Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.

Administering authorities should report periodically to members on the discharge of such responsibilities.

- The Fund's approach to responsible investment is described in the Statement of Investment Principles and on the Fund's website.

- The Fund's policy on responsible ownership is included in the statement on the Financial Reporting Council's Stewardship Code (see Appendix C of the Statement of Investment Principles).

- Details of the Fund's voting and engagements will be available on the Fund's website. The Fund's annual report and accounts includes a summary of the Fund's approach to responsible investment. The full report is available on the website and is sent to members on request.

Principle 6 – Transparency and reporting

Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and provide regular communication to members in the form they consider most appropriate.

- Meetings of the Pensions Committee are open to the public. Members of the public are entitled to make a deputation at Committee meetings. Committee papers are available on the Fife Council website. The Pension Board joins the Committee at all meetings.

- The Committee's remit covers wider pension scheme issues, other than the management and investment of funds.

- The Fund's policy statements, including the Communications Strategy, Statement of Investment Principles and Funding Strategy Statement are maintained regularly. Stakeholders are consulted on changes. Documents are available on the Fund's website.

- The Fund produces an Annual Report & Accounts. The full report is available on the website and is sent to members on request. The Fund also produces regular newsletters for members as well as an annual benefit statement. Regular briefings are provided to employers. The Fund's website is updated regularly.

APPENDIX 2

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

APPENDIX 3

INVESTMENT COMMENTARY

LOTHIAN PENSION FUND INVESTMENT (LPFI)

Investment markets

For the 12 months to 31 March 2022, UK equities (FTSE All Share) returned +13% (source: FTSE), while global equities also returned +12% (MSCI ACWI, in GBP (source: MSCI)). Returns for sterling-based investors were boosted by a weaker pound (global equities returned +7% in USD terms) and also underpinned by strong returns from developed markets (+16% in GBP), in contrast to emerging market equities which fell (-7% in GBP), reflecting the different pace at which economies are recovering from COVID-induced slowdowns.

Supply chains across the global economy experienced significant disruption as some countries re-opened and others locked back down. Rising energy prices, boosted by a combination of rebounding demand and an unexpected shortfall in renewables generation, have also been a major factor in inflation moving progressively higher over the past year. Against this backdrop, government bond yields rose over the period. Previous talk of inflation being transitory seems to have receded, with most central banks around the world having started to move rates higher. Corporate bonds, which had traded in a relatively narrow range over much of 2021, sold off during Q1 2022 as government bond yields rose and credit spreads widened, while in the UK, gilt yields also rose.

Loose monetary policy, brought about by decades of disinflation, has collided with soaring commodity prices, brought about by a combination of underinvestment in production growth and the invasion of Ukraine by Russia impacting commodity supply. Meanwhile, the pandemic continues to disrupt society and economic growth, with China currently in rolling lockdowns across much of the country. While central banks are now tightening monetary policy through higher rates to combat inflation, many believe that the global economic outlook has already begun to deteriorate, and the concern is that central banks may tighten too far. The heightened volatility in markets observed in early 2022 seems likely to continue for some time yet.

ADDITIONAL INFORMATION

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

Comments and Suggestions

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

Please email your comments to: Pensions.section@fife.gov.uk

Contact Details

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

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

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

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

Email: Banking.Investments@fife.gov.uk

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

Reporting on the audit of the financial statements

Opinion on financial statements

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 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the financial transactions of the fund during the year ended 31 March 2022 and of the amount and disposition at that date of its assets and liabilities;

- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 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 six 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.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the fund is complying with that framework;
- identifying which laws and regulations are significant in the context of the fund;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting on other requirements

Other information

The Executive Director Finance and Corporate Services is responsible for other information in the annual report. The other information comprises the Management Commentary, Fife Pension Fund Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities for the Pension Fund Accounts and other reports included in the annual report other than the financial statements and my auditor's report thereon.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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 the Management Commentary, Pension Fund Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In 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 Pension Fund 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

Fife
Pension Fund
Administered by Fife Council

Fife
COUNCIL

13th December 2022

Agenda Item No. 4

Fife Pension Fund Communication Policy

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

This report provides an updated Communication Policy for Fife Pension Fund. The document is intended to replace the previous policy agreed by the Committee in reflecting the increased use of digital communications and blended workstyle adopted by the Team.

Recommendation(s)

It is recommended that the Committee consider and approve the revised Communication Policy.

Resource Implications

There are no direct resource implications identified at this stage.

Legal & Risk Implications

Provision for the preparation for the Communication Policy is included in the Local Government Pension Scheme (Scotland) Regulations, which sets out what the strategy should include. There is a risk that not having a communication policy could result in the administering authority, scheme employers and members not understanding the communication methods being adopted.

Impact Assessment

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

Consultation

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

1.0 Background

1.1 In accordance with Regulation 59 of the Local Government Pension Scheme (Scotland) 2018 (the regulations) state the following:

(1) an administering authority must prepare, maintain, and publish a written statement setting out their policy concerning communication with-

a) Scheme members;

b) Representatives of scheme members;

c) Prospective scheme members; and

d) Scheme employers.

(2) In particular the statement must set out its policy on-

a) The provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;

b) The format, frequency and method of distributing such information or publicity; and

c) The promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2)

1.2 A review of the Communication Policy has been undertaken and the document updated to reflect current circumstances and a move to digital communications.

2.0 Communication Policy

2.1 The Pensions Administration team has undertaken a full review of the previous Communication Policy compared with the regulations. A review of other funds documents was also undertaken to identify best practice.

2.2 The Communication Policy has been updated to take account of development in communication arrangements including the blended working arrangements now in place, increased use of digital communications and promotion of self-service using Member Self-Serve. The policy also reflects the revised Administration Strategy agreed in September. An updated draft has been attached as Appendix 1. Once approved by this committee, the policy will be published on the website.

2.3 The policy will be reviewed on annual basis and will be brought to committee for approval if there are material changes or on a triennial basis, on the same timeframe as the Administration Strategy.

3.0 Conclusion

3.1 The Communication Policy sets out how Fife Pension Fund staff will communicate with members and key stakeholders.

List of Appendices

Appendix 1 – Fife Pension Fund – Draft Communication Policy

Background Papers

None

Report Contact

Elaine Muir
Head of Finance
Fife House
Glenrothes
KY7 5LT

Email: elaine.muir@fife.gov.uk

Fife Council

Fife Pension Fund

Administered by Fife Council

Communications Policy

Fife Pension Fund Communication Policy

Contents

1. Introduction

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

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

The communication policy statement must set out:

- The provision of information and publicity of the scheme to members, representatives of members and scheme employers.

- The format, frequency, and method of distributing information and publicity.

- The promotion of the scheme to prospective members and scheme employers

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

2. Communications Objectives

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

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

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

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

3. Who we communicate with

- Scheme members.
- Scheme employers.
- Prospective scheme members and employers.

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

4. How we will communicate

Fund Website

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

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

The scheme website can be found at Home | Fife Pension Fund

Fife Council Website

Current Pension Committee and Fife Pension Board agendas and minutes can be found on the main Council website. Pensions Committee | Fife Council

Former Superannuation Fund and Pensions Committee agenda and minutes can be found the archive section following this link Committees | Fife Council.

Member Self Service (MSS)

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

All Scheme Members can:

- Update personal information e.g., change of address, nominations of beneficiaries
- View financial details
- Update personal information e.g., change of address, nominations of beneficiaries
- Access publications such as scheme guides, newsletters, and factsheets
- Upload any documents that the Pensions Team request
- Use the contact facility to raise any questions

Active and Deferred Members can also:

- View Annual Benefit Statements
- Access Pension quotes on demand without needing to contact the Pensions Team
- View Scheme Membership; and

Pensioners can:

- Access payslips and P60 details and check/update their bank details

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

5. General Communications

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

E-mail enquiries should be addressed to pensions.section@fife.gov.uk

Postal enquiries should be addressed to:

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

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

Employers' Meetings
We provide training to scheme employers as and when required or on request from the scheme employer. All new employers in the Fund will also be provided with training. Employers will be expected to attend any such training, particularly where significant performance issues have been identified.

Scheme Member Presentations
Available on request by Employers to scheme members on specific pension related matters, such as HMRC pension tax rules or pre-retirement sessions

Scheme Members Appointments
We can offer virtual meetings for Scheme Members using Microsoft Teams where we can share documents and answer any questions in the same way as a traditional face to face meeting. If this is not suitable, scheme members can arrange to visit our office to speak to a member of our Pensions Administration Team, however appointments must be pre-booked please. Bookings can be made using the contact details above

6. Specific Communications

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

Active Members

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

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

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

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

Scheme Employers

The Fund communicates with scheme employers in the following ways:

- Annual Employers' Forum.
- Employer newsletters giving updates on legislation and policy matters.
- Wording of global emails/intranet messages provided for employers to cascade down to scheme and potential members.
- Pension Administration strategy setting out the roles, responsibilities and service standards for the Fund and employers.
- Annual report on the Fund.
- Actuarial 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.

Fife Pensions Committee and Fife Pension Board
The Committee and Board members directly receive all meeting papers electronically, with alternative formats and accessible documents available on request. Agendas, meeting papers and minutes are available on the Council's website.

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

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

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

The Pension Team assists Trade Union representatives with member queries.

Evaluation

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

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

Alternative Formats

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

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

BT Text Direct – 18001 01592 55 11 91

Language Lines

Arabic	خط هاتف اللغة العربية: 03451 55 55 77
Bengali	বাংলায় আলাপ করার জন্য টেলিফোন লাইন: 03451 55 55 99
Cantonese	中文語言熱線電話: 03451 55 55 88
Polish	Polskojęzyczna linia telefoniczna: 03451 55 55 44
Urdu	اُردو زبان کے لیے ٹیلیفون نمبر 03451 55 55 66

Review Date	Author	Next Review Date
December 2022	Pensions Team Leader	December 2023

13th December, 2022

Agenda Item No. 5

Funding Strategy Statement - updated

Report by: Elaine Muir, Head of Finance and Robert Bilton, Actuary Hymans Robertson LLP

Wards Affected: All

Purpose

The purpose of this report is to amend the Fund's current Funding Strategy Statement to reflects recent changes in regulations that came into force on 1 June 2022.

Recommendation(s)

It is recommended that the Committee adopt the revised Funding Strategy Statement

Resource Implications

There are no direct resource implications identified at this stage.

Legal & Risk Implications

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

Impact Assessment

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

Consultation

Scheme Employers were consulted on the updated Funding Strategy Statement.

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

1.0 Background

1.1 The funding strategy is formally laid out in the Funding Strategy Statement (“FSS”) which, under LGPS Regulations, all funds have a statutory obligation to produce.

1.2 The FSS is prepared by the Administering Authority in collaboration with the Fund Actuary (Hyman’s Robertson) and Employers. The FSS forms an integral part of the framework within which the triennial valuation is carried out to set employers’ contributions. The FSS also outlines how the funding strategy fits in with the investment strategy

1.3 The current funding strategy was prepared as part of the 2020 valuation and was approved at Committee on 9 March 2021.

1.4 The Scottish Public Pensions Agency (SPPA) have published the Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022, which came into force on 01 June 2022. As a result, it is necessary to update the document to reflect the changes in the regulations.

1.5 Amongst other things, flexibilities have been introduced around the treatment of exit valuations and changes to employers’ contributions between formal valuations.

1.6 Hymans Robertson have prepared commentary on the amendments which is attached as Appendix 1.

2.0 Changes to Regulations

2.1 Funds will now have the power to formally review employer contributions between formal triennial valuations where there has been a ‘significant change to liabilities or covenant’, and employers will have the right to request a review of their rates under similar circumstances. The introduction of Deferred Debt Agreements (DDA’s) and the regulatory power to spread exit payments should also help to manage affordability issues for employers that are approaching or targeting cessation.

2.2 Given these amendments to the regulations it is appropriate to update the FSS and a “marked up” version is attached at Appendix 2. The changes to the FSS are “marked up” and highlighted blue for the ease of review by Committee. Following approval at Committee a clean copy will be prepared, formatted and issued to employers, as well as published on the website.

2.3 Prior to presentation to Committee, the scheme employers were consulted on the updated FSS and feedback requested. No responses were received.

Other Changes

2.4 Aside from flexibilities, there are some other changes introduced by the amendment regulations in respect of:

- Actuarial valuations of pension funds
- Special Circumstances where revised actuarial valuations and certificates are obtained

- Early payment of pension at age 55
- Survivor benefits

3.0 Conclusion

3.1 Following the publication of the amendment regulations, the FSS has been updated to reflect the changes in respect of flexibilities around the treatment of exit valuations.

List of Appendices

Appendix 1 – 60 Second Summary By Hymans Robertson

Appendix 2 – Funding Strategy Statement March 2021 (updated)

Background Papers

Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022

Report Contact

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Email: elaine.muir@fife.gov.uk

Sixty second summary

Scottish LGPS amendment Regulations 2022

Peter Riedel
Senior GAP Consultant

Richard Warden
Partner & Fund Actuary

The Scottish Public Pensions Agency (SPPA) have published the Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022. These come into force on 1 June 2022. Amongst other things, flexibilities have been introduced around the treatment of exit valuations and changes to employer contributions between formal valuations, similar to those implemented in England and Wales in 2020. The headlines are discussed below.

Further flexibilities for administering authorities

A number of flexibilities are available around the treatment of exit valuations, including the introduction of 'deferred debt agreements', inter-valuation contribution changes and spreading of exit payments.

We welcome the introduction of these greater flexibilities to the current provisions relating to employer funding. As with the scheme in England and Wales, we believe it is important for the Scottish Scheme Advisory Board (SSAB) and SPPA to issue supplementary guidance to administering authorities regarding the practical implementation of these new flexibilities.

A 60 Second Summary that we prepared following the launch of the equivalent English and Welsh regulations explores the flexibilities in more detail. These changes happened from September 2020 therefore we can learn from experiences south of the border. For example, upfront discussion on the principles around applying the flexibilities to allow efficient drafting of policy, or earlier engagement with employers that are likely to be interested in taking advantage of the new flexibilities.

Other actuarial focussed changes

Flexibilities aside, there are a couple of other changes introduced by these amendment Regulations that should be of interest to administering authorities and their actuaries.

- **Actuarial valuations of pension funds** – the amendments confirm a change, requiring administering authorities to *'obtain an actuarial valuation of the assets and liabilities of each of its pension funds both on an ongoing and a cessation basis as at 31st March 2020 and on 31st March in every third year afterwards'*. We are pleased to see that this amendment is actually effective from the date the amendment Regulations come into force and not 31 March 2020, thus avoiding any need for retrospective adjustments to Rates & Adjustment Certificates. We do have some concerns though regarding how administering authorities and their actuaries define "ongoing" and "cessation" in a consistent manner across the scheme without some sort of steer from the SSAB and SPPA.

- **Special circumstances where revised actuarial valuations and certificates must be obtained** – we note that the requirement to guarantee a cessation valuation for a period of 90 days has been retained from the original consultation. This raises a number of questions, not least reaching a consensus over the date on which the 90-day guarantee period commences e.g. is it the cessation date, or the calculation date, or the reporting date? As with the new flexibilities it is hoped the SSAB and SPPA will issue supplementary guidance to administering authorities and their actuaries regarding the practical implementation of this change.

Early payment of pension at age 55

Changes have been introduced to allow deferred members of earlier schemes to elect for early payment of their benefits between age 55 and 60 without needing their former employer's consent. This also applies to pension credit members who were awarded the credit under the Earlier Schemes to be able to elect to receive their benefits early, at a reduced rate, on or after age 55.

Survivor benefits (Walker & Goodwin judgements)

Amendments have been introduced to the calculation of survivor partner pensions so that surviving civil partners, survivors of married same-sex couples and male survivors of female married members are placed in a similar position to female survivors of male married members.

We are aware, however, that concerns were raised regarding the scope of these changes during the consultation exercise, given the potential risk of a further inequality being introduced to widows' pensions where the relevant additional membership (e.g. added years) would not be included when calculating survivor benefits for those individuals. We note that no changes appear to have been made following the consultation process to address these concerns.

Concern was also raised over the impact on children's pensions that may be found to have been overpaid in circumstances where a survivor pension might now become due as a result of the above changes. We cannot see that this concern has been addressed in the final Regulations. It is hoped, therefore, that the SSAB and SPPA will produce guidance to administering authorities on what to do where this occurs.

Conclusion

On the whole, we believe the changes that are being introduced are welcome. We do have some concerns regarding the changes to survivor benefits and what this does in terms of introducing further inequalities and impacts on other survivor entitlements already paid.

The introduction of administering authority flexibilities is pleasing to see, although guidance from the SSAB and SPPA will be necessary, particularly with regards to the application of a number of elements that deviate from what has already been introduced in England & Wales.

Fife Pension Fund

Administered by Fife Council

Funding Strategy Statement

Pension Fund – Funding Strategy Statement (updated)

Contents

FIFE PENSION FUND – FUNDING STRATEGY STATEMENT March 2021 (updated)

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 01 April 2021

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 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 an FSS, as given in 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, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. 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.

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 John Mackie, Pensions Team Leader in the first instance at e-mail address john.mackie@fife.gov.uk

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See 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 likelihood of achieving that funding target over that time horizon, allowing for 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 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 an allowance for 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 is in respect of benefits already accrued at the valuation date. 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 calculated contribution rate vary for different employers?

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

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). 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 the funding target is achieved. 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 **likelihood 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 then the required likelihood 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 funding level calculated?

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

- the market value of the employer's share of assets (see 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 funding level and deficit/surplus 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 likelihood 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 time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

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

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal two Court of Appeal judgements in December 2018, collectively referred to as the 'McCloud' judgement. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2015 in the case of the LGPS in Scotland) were unlawful on the grounds of age discrimination. The exact details of the solution to the McCloud judgement have yet to be confirmed. A consultation on this closed on 23 October 2020 and is currently under consideration by the Scottish Public Pensions Agency (SPPA).

In May 2020, the SPPA set out their expectations for how funds should allow for this uncertainty in the benefit structure as part of their 2020 valuations. The Fund Actuary has included an allowance in the Fund's liabilities in line with SPPA's instructions.

2.8 What approach has the Fund taken to dealing with uncertainty arising from the paused Cost Cap mechanism and its potential impact on the LGPS benefit structure?

As part of the public sector pension scheme reforms in the first half of the 2010s, a mechanism was put in place to protect employers from significant increases in future pension costs. The mechanism is symmetrical in its design – following a Cost Cap valuation carried out by the Government Actuary's Department (GAD), if the scheme is calculated to have a lower/(higher) than intended cost to employers, then action will be taken: improvements/(reductions) in future benefit accrual and/or increases/(reductions) in employee contribution rates.

The first Cost Cap mechanism for LGPS Scotland was as at 31 March 2017, however this has been put on hold until the McCloud judgement is resolved. There is currently no information available about the results of the 2017 Cost Cap valuation and whether a change in the benefit structure and/or employee contribution rates from 1 April 2020 may occur.

The Fund has considered how it will allow for this uncertainty in the approach to setting employer contribution rates, and has decided to make no allowance or adjustment to contribution rates and liabilities at the 2020 valuation. However, once the outcome of the Cost Cap valuation case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate. The Fund reserves the right to increase rates prior to the next valuation in 2023 if deemed necessary.

2.9 When will the next actuarial valuation be?

On 21 January 2020 SPPA issued a consultation seeking views on proposals to amend the LGPS valuation cycle in Scotland from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle. This consultation closed on 9 March 2020 and is currently under consideration by SPPA. At the time of writing, we understand that the next valuation is likely to be in 2023.

2.10 What approach has the Fund taken to dealing with uncertainty arising from the Goodwin court case and its potential impact on the LGPS benefit structure?

The Goodwin tribunal was raised in the Teachers' Pension Scheme. It claimed members, or their survivors, were discriminated against due to their sexual orientation. The claim was because the Teachers' scheme provides a survivor's pension which is less favourable for a widower or surviving male partner, than for a widow or surviving female partner of a female scheme member in certain circumstances. On 30 June 2020, the Tribunal found in favour of the claimant and agreed there was discrimination. This finding and remedy is expected to apply across all public service pension schemes, including the LGPS, however this is not certain and the exact details are not yet known.

The impact, if any, of the Goodwin case on Fund liabilities is expected to be small and will largely be an administrative issue. In the absence of a resolution or any guidance to this case, no allowance has been made for this within the 2020 formal valuation.

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 likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "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 reserves the right to 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 likelihood 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 result in a lower level of future investment returns on the employer's asset share. 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 participation basis, assumes long-term Fund participation (see Appendix E)		Ongoing participation basis, but may move to "Low risk exit basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)				
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	18 years	18 years	18 years if open to new entrants and where >20 active members. Otherwise salary-weighted future working lifetime.		Remaining contract period, unless exceptional circumstances
Secondary rate – Note (d)	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll
Secondary rate calculations when funding level is greater than 100% at valuation date	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
Likelihood of achieving target – Note (e)	66%	70%	Ongoing participation basis: 75% Low risk exit basis 50%		75%
Phasing of contribution changes Note (f)	Covered by stabilisation arrangement	3 years	3 years	None	None
Review of rates – Note (g)	Review of rates will be carried out in line with the Regulations and as set out in Note (g)				Review of rates will be carried out in line with the Regulations and as set out in Note (g) Reviewed annually by request in last 3 years of contract
New employer	n/a	n/a	Note (h)		Notes (h) & (i)
Cessation of participation: exit debt/credit 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		Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see		Participation is assumed to expire at the end of the contract. Exit debt/credit (if any) calculated using a basis consistent with that used to

	changes for example), the cessation debt principles applied would be as per Note (j).	Note (j).	allocate assets to the employer on joining the Fund, unless the admission agreement is terminated early by the contractor in which case a more prudent basis may apply. Letting employer will be liable for future deficits and contributions arising. See note (j) for further details.

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

** An employer may be classed by the Fund in its discretion as being closed to new entrants if the employer has explicitly adopted that as its policy, or if this appears to be the case in practice due to a lack of employees joining the Fund in recent times.

Note (a) (Low risk exit 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 body is closed to future new entrants (either explicitly, or implicitly due to a lack of employees joining the Fund in recent times),

the Administering Authority may set a higher funding target (i.e. the "low risk exit" basis as per E3), 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 an explicit 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 2020 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 next formal valuation. 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 2021 for the 2020 valuation). The Administering Authority would normally expect the same end point to be used at successive triennial valuations, however this is subject to change where a contribution rate is reviewed in between triennial valuations. The Administering Authority 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 period until the next formal valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between formal 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) (Likelihood 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 likelihood. A higher required likelihood 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 Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood 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.

Note (g) (Regular Reviews)

Under the Regulations the Fund may amend contribution rates between valuations where there has been “significant change” to the liabilities or covenant of an employer. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of the Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulation 30(3) of the Regulations;
- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer(s) to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially or they are going through a significant restructuring impacting their membership). The employer would be expected to provide evidence to back up its request for a review e.g. report and accounts, financial forecasts and budgets. The Administering Authority will endeavour to complete any review within 3 months of request subject to receipt of satisfactory evidence, and will monitor any change in an employer’s circumstances on a regular basis following any change in contribution rate and may require further information from the employer to support this monitoring process.

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

It should be noted that any review may require increased contributions. The Administering Authority may need to consult other fund employers e.g. where they act as guarantor, as part of a review.

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 greater than expected rise in liabilities;
- 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 (or entitled to any surplus) 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 throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

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. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their 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 exiting the Fund)

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 by issuing a written suspension notice, 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;
- 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: or
- On termination of a Deferred Debt Agreement

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. The Administering Authority reserves the right to put in place a Deferred Debt Agreement (as described in Regulation 61 (4A)).This is covered in further detail on page 21.

Where there is a debt, payment of this amount in full would normally be sought from the Admission Body. The Fund's normal policy is that this cessation debt is paid in full as a single lump sum. However, subject to actuarial, covenant, legal and any other advice as necessary, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period. Repayments may be subject to an interest charge and any spreading would always be discussed in advance and agreed with the employer. Such agreement would only be permitted at the Fund's discretion, where the employer can demonstrate that payment of the debt in a single immediate lump sum could be shown to be materially detrimental to its normal operations. In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time. The length of any spreading period will depend on the employer's financial circumstances and on the strength of any security provided, and ordinarily would not exceed 5 years. The Fund will confirm the spreading period, annual repayments including any interest, and any other costs (e.g. actuarial or legal) payable by the employer prior to the repayments starting. The Fund will monitor the employer's circumstances regularly during the spreading period and may request updated financial information that could trigger a review of the arrangement and repayments. The Fund will endeavour to accommodate any such spreading arrangement or review within 3 months of receipt of the relevant evidence from the employer.

Where there is a surplus, following the Local Government Pension Scheme (Scotland) Regulations 2018 which came into effect on 1 May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.As discussed in Section 2.7, the LGPS benefit structure from 1 April 2015 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2015) are confirmed, the Fund's policy is that the actuary will value the employer's liabilities in line with instructions SPPA set out for the 2020 formal valuations.

Community Admission Bodies

For Community 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/surplus will normally be calculated using a "low risk exit basis", which is more prudent than the ongoing valuation 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 (i.e. will only step in to pay for employer liabilities if the employer is unable to), 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 Fund's ongoing valuation basis; 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 or surplus. 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 may 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.

Transferee Admission Bodies

For Transferee Admission Bodies the cessation liabilities and final deficit/surplus will normally be calculated using a methodology that is consistent with that used to allocate assets to the employer on joining the Fund.

For Transferee Admission Bodies whose participation is voluntarily ended by themselves, the cessation debt/credit may be calculated using the "low risk exit basis" described under (a) above

.**Deferred Debt Agreement (DDA)**

As an alternative, where the ceasing Admission Body is continuing in business, the Administering Authority may enter into a written agreement with the Admission Body to defer its obligations to make an exit payment and continue to make Secondary contributions (a 'Deferred Debt Agreement' as described in Regulation 61 (4A)). The Admission Body must meet all requirements on Scheme employers and pay the Secondary rate of contributions as determined by the Fund Actuary until the termination of the DDA. Any such agreement would always be discussed in advance with the Admission Body, whether at its request or not. The Fund will endeavour to accommodate any agreement within 3 months of receipt of all relevant evidence from the employer as outlined below.

The Administering Authority will consider DDA's in the following circumstances:

- The Admission Body requests the Fund to consider a DDA;
- The Admission Body is expected to have a deficit when the cessation valuation is carried out;
- The Admission Body is expected to be a going concern; and
- The covenant of the Admission Body is considered sufficient by the Administering Authority. Evidence may be required from the Body to back this up e.g. report and

accounts, financial forecasts and budgets.

The Administering Authority will normally require:

- Security to be put in place covering the Admission Body's deficit on its cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement to be met by the Admission Body, such as the cost of actuarial or legal advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements. Estimates of these would be notified to the Body.

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

- the Admission Body enrols new active Fund members;
- the period specified, or as varied, under the DDA elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the Admission Body;
- the Administering Authority serves a notice on the Admission Body that the Administering Authority is reasonably satisfied that the Admission Body's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months;
- the Fund Actuary assesses that the Admission Body has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. the Admission Body is now largely fully funded on its cessation basis); or
- The Admission Body requests early termination of the agreement and settles the exit payment in full as calculated by the Fund Actuary on the calculation date (i.e. the Admission Body pays its outstanding cessation debt on its cessation basis).

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

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.

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

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

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when individual members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2020 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

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.

3.5 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 or frozen 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

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If 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 that applies for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

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

- the employer's contribution rate to the Fund each year is reduced by the amount of that year's insurance premium rate, and

- there is no need for monitoring of ill health allowances versus experience (as typically required for some employers).

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

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 ceased.

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 or receive an exit credit on an appropriate basis (see 3.3, Note (j)) 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 and a cessation deficit 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 has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- Where only active members transfer out, the Fund will not pay bulk transfers greater than the value of the members' past service liabilities;

- 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 actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore 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 Appendix A1).

In the short term – such as the assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

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

4.4 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, on a regular basis.

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.

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 January 2021 for comment;

b) Comments were requested within 30 days;

c) There was an Employers Forum on 03 February 2021 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 on LGPS website www.fifepensionfund.org

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.fifepensionfund.org;

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 annual report and accounts of the Fund on the website at Annual accounts | Fife Council

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 (which may move to every four years in future – see Section 2.9). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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.

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.

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 and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation monitoring of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance; reviewed at least every three years.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on

Risk	Summary of Control Mechanisms
	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	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Effect of possible asset underperformance as a result of climate change	The Fund actively considers this risk when allocating assets and apportioning Fund Managers.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. 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.
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	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	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: Employers in the stabilisation mechanism may be brought out of that mechanism to permit

Risk	Summary of Control Mechanisms
	appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (g) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.
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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded

Risk	Summary of Control Mechanisms
	appropriately. Actuarial advice is subject to professional requirements such as peer review.
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. 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.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (g) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable by the Fund	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

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 Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1) Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See 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 likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in 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 assets, liabilities 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 likelihood, 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 (the "Economic Scenario Service") 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. . Further information about this model is included in Appendix E. The contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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 Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate 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. at the end of the determined time horizon (see 3.3 Note (c) for further details); and
3. within the determined time horizon (see 3.3 Note (c) for further details); and
4. with a sufficiently high likelihood, 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 (the "Economic Scenario Service") 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. Further information about this model is included in Appendix E. The contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

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 at the end of the time horizon;
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 likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1 A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2 A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2017 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

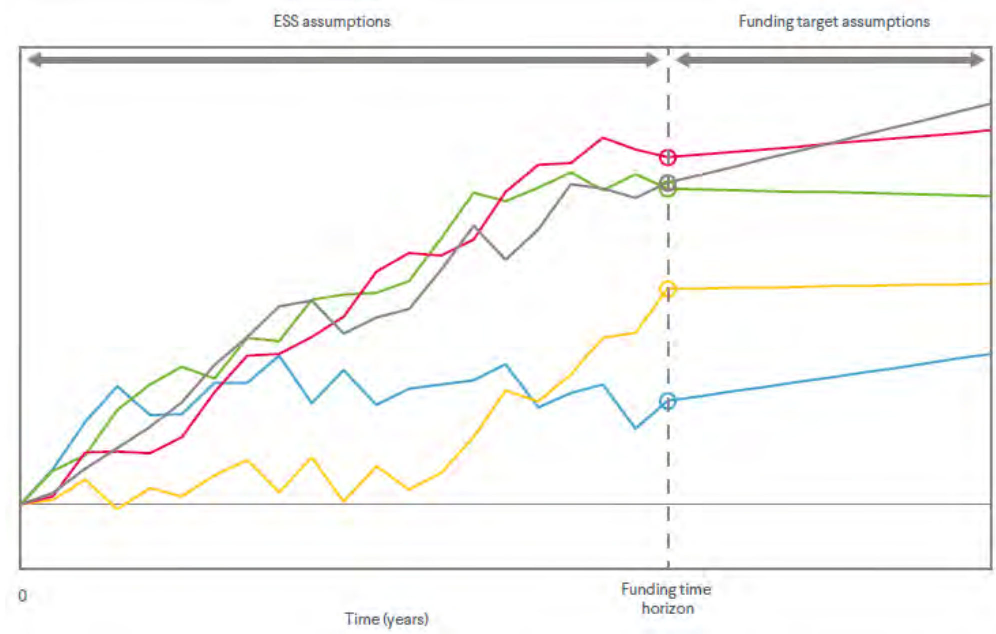
These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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 funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

For the 2020 valuation, the actuary has projected forward from 30 June 2020 when setting contribution rates for employers. This is to avoid long-term funding strategies being unduly influenced by the extreme short-term market conditions that were in force at 31 March 2020.

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2020 and 30 June 2020. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

31 March 2020

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated Corporate Bonds (medium)	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-0.6%	-3.0%	-2.9%	-5.3%	-5.2%	-3.7%	-2.1%	1.3%	-2.7%	0.2%
	50th %'ile	0.2%	0.0%	-0.3%	3.7%	3.9%	2.1%	1.3%	2.8%	-1.8%	1.3%
	84th %'ile	1.0%	3.0%	2.5%	13.6%	13.4%	8.7%	4.5%	4.3%	-0.9%	2.5%
10 years	16th %'ile	-0.4%	-2.5%	-2.0%	-2.1%	-2.1%	-1.8%	-1.1%	1.4%	-2.2%	0.6%
	50th %'ile	0.6%	-0.4%	-0.5%	4.3%	4.3%	2.5%	0.8%	2.9%	-0.9%	2.0%
	84th %'ile	1.7%	1.8%	1.0%	10.7%	10.5%	7.2%	2.6%	4.6%	0.3%	3.8%
20 years	16th %'ile	0.2%	-1.5%	-0.6%	0.6%	0.8%	0.2%	0.2%	1.4%	-1.6%	1.2%
	50th %'ile	1.6%	0.2%	0.2%	5.2%	5.3%	3.6%	1.3%	2.9%	0.1%	3.1%
	84th %'ile	3.3%	1.9%	1.0%	9.9%	10.0%	7.4%	2.4%	4.5%	1.9%	5.7%
	Volatility (Disp) (1 yr)	0%	7%	8%	27%	28%	14%	10%	1%		

30 June 2020

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	CorpMedium A	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-0.8%	-3.2%	-3.2%	-4.9%	-4.7%	-3.9%	-3.0%	1.4%	-3.2%	0.0%
	50th %'ile	0.0%	-0.3%	-0.5%	3.6%	3.7%	1.9%	0.1%	2.8%	-2.3%	1.1%
	84th %'ile	0.8%	2.7%	2.3%	12.6%	12.2%	8.4%	3.2%	4.4%	-1.4%	2.3%
10 years	16th %'ile	-0.6%	-2.8%	-2.3%	-2.0%	-1.9%	-2.0%	-1.9%	1.5%	-2.5%	0.4%
	50th %'ile	0.4%	-0.7%	-0.7%	4.0%	4.1%	2.3%	0.0%	3.1%	-1.3%	1.8%
	84th %'ile	1.6%	1.3%	0.8%	10.3%	10.0%	7.0%	1.7%	4.8%	-0.1%	3.7%
20 years	16th %'ile	0.1%	-2.0%	-0.8%	0.6%	0.7%	0.1%	-0.2%	1.5%	-1.6%	1.2%
	50th %'ile	1.5%	-0.3%	0.0%	5.1%	5.2%	3.4%	0.8%	3.1%	0.1%	3.1%
	84th %'ile	3.2%	1.4%	0.7%	9.7%	9.7%	7.3%	1.8%	4.7%	1.8%	5.7%
	Volatility (Disp) (1 yr)	0%	7%	8%	21%	20%	14%	9%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	**Ongoing participation basis**	**Contractor exit basis**	**Low risk exit basis**
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's	Long term government bond yields plus an asset outperformance	An assumption that is consistent with the methodology used to allocate assets to	Long term government bond yields with no allowance for

funding target (at the end of its time horizon)	assumption (AOA) of 1.8% p.a.	the employer on joining the Fund	outperformance on the Fund's assets

E3 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

The salary increase assumption at the 2020 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2025, followed by
2. 0.5% above the consumer prices index (CPI) p.a. thereafter.

This gives a single "blended" assumption of CPI plus 0.5%. This is consistent with the previous valuation.

b) 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 the previous valuation we assumed CPI would be 1.0% lower than RPI on overage. At the 2020 valuation, we have assumed that CPI will be 0.9% per annum lower than RPI on average, which will serve to increase the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) 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.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2019 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.5% per annum minimum underpin to future reductions in mortality rates. This results in slightly lower life expectancies than was assumed at the 2017 valuation.

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.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), 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.

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
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.
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**.
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 are also used in funding as an objective measure of a risk-free rate of return.
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 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 period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees 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**. 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.
Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.

13th December, 2022

Agenda Item No. 6

Pensions Administration - Performance Monitoring Report

Report by: Elaine Muir, Head of Finance

Wards Affected: N/A

Purpose

To provide the Committee with monitoring information on the performance of the Pensions Administration Team as well as providing an update on other activities undertaken by the Team over the quarter to 30/09/2022.

Recommendation(s)

The Committee is asked to

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

(2) Comment on the revised format of the KPI information

(3) Note the range of additional activities carried out by the team over the last quarter

Resource Implications

Managing and monitoring team performance is important in providing an efficient service to both employers and members and can highlight areas for improvement. Performance is considered and monitored to ensure regulatory timescales and Key Performance Indicators (KPIs) are met.

Legal & Risk Implications

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

Impact Assessment

Not relevant.

Consultation

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

1.0 Background

1.1 Key Performance Indicators (KPIs) which support the pension administration function are collated within Altair, the pension administration software. KPIs are reported quarterly to management team and to Committee.

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

1.3 The report also provides an update on the work undertaken by the team.

2.0 Key Performance Indicators Review

2.1 Following the approval of the Administration Strategy and Internal Audit report on KPIs, there was a commitment to produce a revised set of KPIs for presentation and reporting to Committee.

2.2 Work is continuing to develop this suite of KPIs, which will be concluded for reporting in March 2023. In the meantime, it is recognised that there is a need to continue reporting performance as well as improve the presentation of information to Committee.

2.3 Since the last quarter, the presentation of the KPIs for the existing key processes has been enhanced and is attached as Appendix A.

2.4 There are 3 KPIs included in the Appendix which represent the following:

- **KPI 1: Key Processes**
  7 of the Pensions Teams key processes are measured against the current targets. The performance being measured is the percentage number of cases processed within in the agreed or target timescales. e.g., New members processes has a target of 80% completion within the target number of days per KPI2. The graphic demonstrates the comparison in performance per quarter over the last year. The target for completion of these processes is also included.

- **KPI 2: Total Days Elapsed**
  This KPI represents the number of days processes are taking to complete against the target. E.g., the target for processing new members is 20 days and the report demonstrates the performance against that target for each quarter of the last rolling year. This graphic displays the average time taken in each quarter to complete each of the 7 key processes identified in KPI 1 against the target over an annual rolling year.

- **KPI 3: Ongoing Casework**
  This table is new for members to consider and details a breakdown of the total caseload for each of the 7 processes being reported over a rolling year. This demonstrates the volume of cases brought forward, the amount received in the quarter, the amount completed then the level outstanding at the end of quarter. E.g., there are 79 outstanding cases for new members at the end of this quarter. The purpose of including this measure is to give Committee insight into the volume of activity being dealt with by the Team.

2.5 Work continues to develop the KPIs being reported in line with the Administration Strategy and workload of the team. In addition, targets will be reviewed to reflect the steps taken and dependencies of the team.

3.0 Key Performance Indicators – Quarter 2 Commentary

KPI 1 - Key Processes

3.1 Performance is measured on a quarterly basis to provide a picture of recent performance and to avoid continued reference to past cases which is repetitive when measuring annual performance.

3.2 KPI information for the quarter 1 July 2022 to 30 September 2022, and comparators for the for previous quarters are detailed in Appendix A. An explanation for the variance from the target is provided below.

3.3 Performance for the second quarter has been on or above target for 3 of the 7 key processes reported. Dealing with correspondence, processing new members, and processing retirement calculations continues to be on target and performance is consistent with this quarter last year. No redundancy estimates requests made in the quarter.

3.4 Refunds have dropped below target in this quarter. This has been due to internal promotions reducing capacity in our support assistant team, pending recruitment to that part of the Team.

3.5 Performance on dealing with Transfers In is well below the target, although showing a slight improvement on the quarter for the previous year. Team members were required to concentrate their efforts on Annual Allowance (which has a statutory deadline) and this impacted on the volume of Transfers In being dealt with. A review of the target and number of days allocated will be undertaken and reflected in the March report.

3.6 The performance of processing of ill health retirals remains below target. As reported previously, the process for dealing with ill health retirements is complex and often requires additional information from scheme employers to complete the process. Further, to improve the information being shared with the member, estimates are now calculated using actual pay information rather than estimated levels. This information needs to be requested from the employer payroll. Additionally, changes to the process have been made by the largest scheme employer regarding the release of completed estimates. Both changes have an impact on the time taken to complete the process from start to finish. In view of these changes, the target is now unrealistic, and it is unlikely that the target will be met and will be revised along with the updated KPIs.

KPI 2 - Total Days Elapsed

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

3.8 In order to illustrate this a description of the processes is provided below:

- **New Members** - the Target time to process New Members is 20 days and the target is measured from when the new start task is created in Altair to when it's completed. The process involves member creation on a database, checking the data loaded for accuracy and completeness, and finally sending out a notification to the new member.
- **Refunds** – the Target time to process Refunds is 5 days and the target is measured from when we receive the member's completed paperwork. The process then involves running the calculation, creating and coding the payment request, checking and authorising the payment, sending the payment request to our payments team and issuing a letter and statement of the payment to the member.

- **Ill-Health Estimates** – the Target time to process Ill Health estimates is 13 days and the target is measured from when we receive the request from employer and a case is created. Paperwork received is checked to determine the ill-health Tier that applies, and payroll information is then requested from the employer. On receipt of payroll information, the record is member record is checked for accuracy and the calculation is then run, checked, and a notification sent to the employer to notify them that the calculation is ready. Employer confirmation to release the statement is then received and the calculation sent to the member, ending the process.
- **Retirements** – the Target time to process retirements is 7 days and the target is measured from when the final pay, having been requested, is received from the employer. The process then involves running the calculation, creating and coding the payment request for the lump sum and the monthly pension payment, checking and authorising the payments, sending the payment request to our payments team, creating the pension payroll process, and issuing a letter and statement of the payment to the member.
- **Transfers-In** – the Target time to process Transfers-In is 10 days and the target is measured from the receipt of the member's election to proceed with the transfer. A letter requesting the transfer payment from the paying scheme is then issued, and on receipt of the payment the calculation is run to Altair, checked and a notification sent to the member notifying them that payment has been received and their record has been updated.
- **Correspondence** – the Target time to process Correspondence tasks is 31 days and the target is measured from the date the correspondence is tasked to Altair. The task is then triaged, allocated to the appropriate area of the team, and depending on the type of query, responded to immediately or checked, then finalised.

KPI 3 – Casework Ongoing

3.9 This table provides a breakdown of the total caseload for each of the 7 key processes over an annual rolling year. The results shown here are consistent with other KPIs demonstrating an increase in the outstanding cases associated with refunds and ill health estimates.

3.10 Outstanding cases for processes for new members and transfers in have improved since last quarter. There remains the same level of retirals outstanding and a slight increase in the correspondence.

4.0 Administration Team Activity

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

4.2 **Annual Tasks**

4.2.1 In the quarter July to September, the team completed the outstanding queries from the year end process, thereby ensuring Altair records were updated with all information required to calculate the annual benefit statements.

4.2.2 All annual benefit statements, for both Active and Deferred members, were calculated through Altair and uploaded to member records in advance of the statutory deadline of 31 August. The statements were published on Members Self Service accounts and notifications that the annual statements were ready was communicated to members by email, uploading newsletters to both Members Self-Serve and on the website. A news article was also posted on Fife Council's intranet page and in the weekly staff bulletin. Additionally, all other scheme employers were contacted by e-mail, which included links to the Pension Fund Website and Members Self-Serve site, to request that they notify their employees that annual benefit statements were available for members to view on-line.

4.2.3 Also in this quarter, the bulk calculation of Annual Allowance was run in Altair (the statutory deadline for advising members is 6 October each year). Members who reached, or were close to reaching, their Annual Allowance were identified and have been contacted. Verification of data is carried out during the bulk calculation process.

4.3 **Staff Training and Development**

4.3.1 Annual Allowance training has been received and procedure notes developed. This means that more team members have enhanced skills and now understand the Annual Allowance process, and this reduces over reliance on specific team members, reducing single points of failure.

4.4 **Employers**

4.4.1 Working closely with colleagues from Fife Council's payroll and Business Technology Solutions teams, work continues to source the relevant data from Fife Council and all the Fife Council Bureau payrolls for the McCloud project. There are numerous complexities with collating and matching the data being identified, in part down to the number of members involved, but mainly due to the change of payroll systems. The data collation is complex but is expected to be received within the requisite timescales.

4.4.2 Alongside the collation of data the team are proactively developing and testing spreadsheet tools to assist with the collation of the data into the prescribed format for processing and upload to Altair to allow the calculations to be done. For the smaller employers in the scheme the data is ready to be uploaded to Altair.

4.4.3 The Scottish Public Pensions Agency advised that the legislation setting out the underpin remedy is expected next year.

4.5 **Development Work**

4.5.1 The team have produced an Administration Strategy which was approved at this committee, this has been circulated to employers.

4.5.2 The team have also updated the Communication Policy for approval.

4.5.3 The roll out of Members Self-Serve for Pensioner Members is progressing and correspondence has been sent to those members advising of the activation process.

5.0 Conclusions

5.1 This report provides members with monitoring information on the Pension Administration Team's performance and service delivery to employers and members of the Fund in the quarter to September 2022.

5.2 Other activities continue to be advanced by the Team including a review of processes and training.

List/

List of Appendices

Appendix A – Pension Team Key Performance Indicators

Report Contact

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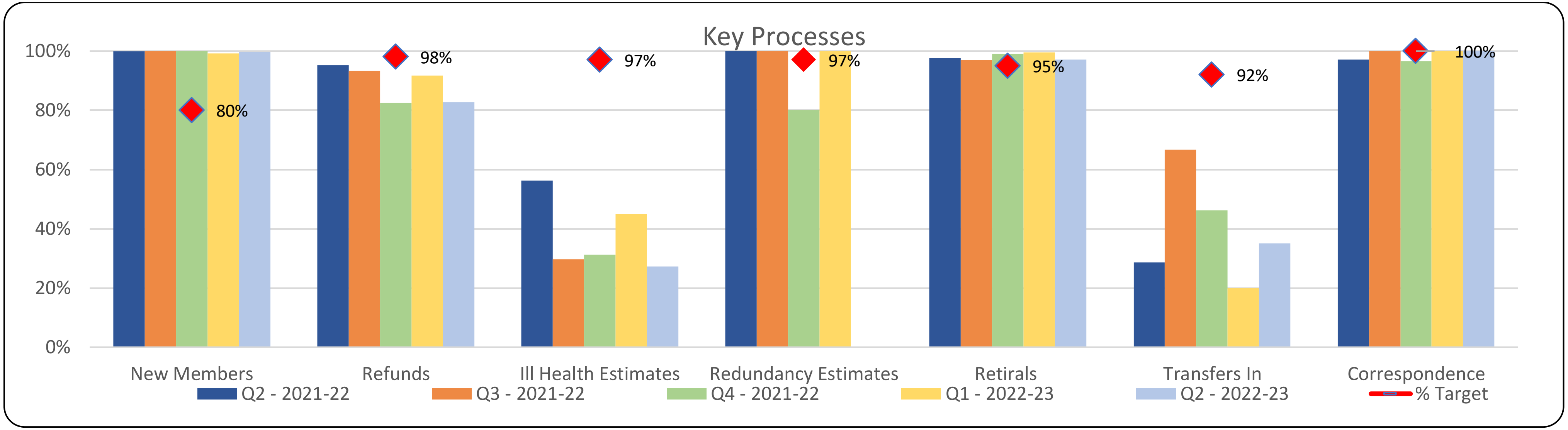
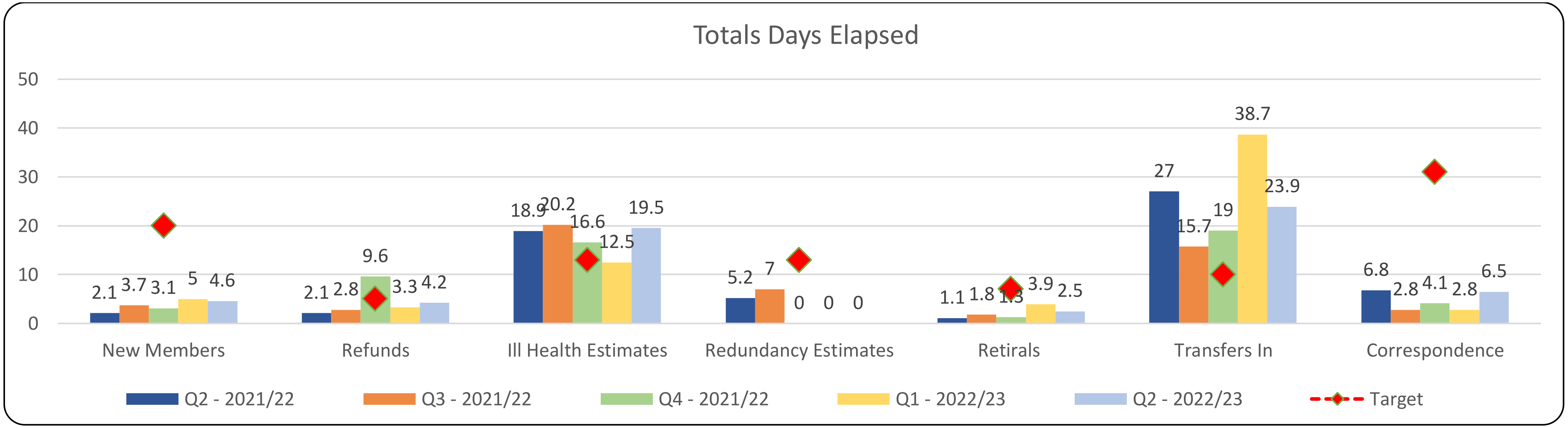
KPI 1: Key Processes



KPI 2: Working Days Elapsed



KPI 3: Casework Ongoing

Ongoing Casework at End of Reporting Quarter	Q3 2021/22				Q4 2021/22				Q1 2022/23				Q2 2022/23			
Key Process	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding
New Members	3	691	691	3	3	517	519	1	1	1081	970	112	112	763	796	79
Refunds	85	192	233	44	44	187	186	45	45	190	203	32	32	339	256	115
Ill Health Estimates	14	18	27	5	5	17	18	4	4	24	21	7	7	35	23	19
Redundancy Estimates	10	1	11	0	0	5	5	0	0	2	2	0	0	0	0	0
Retirals	150	215	190	175	175	241	220	196	196	232	212	216	216	199	196	219
Transfers In	22	20	9	33	33	22	18	37	37	18	17	38	38	15	25	28
Correspondence	2	26	25	3	3	34	36	1	1	20	20	1	1	28	24	5

(Brought Forward + Received – Completed) = Outstanding

13th December, 2022

Agenda Item No. 7

Post Audit Review (PAR) Report

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

Wards Affected: All

Purpose

To submit to Members of the Pensions Committee an update on progress towards implementing internal audit recommendations previously reported to and agreed by Management.

Recommendation(s)

Members are asked to note the contents of this report and the progress that has been made in implementing recommendations.

Resource Implications

N/A

Legal & Risk Implications

Non-implementation of recommendations could lead to control failures resulting in potential financial and/or non-financial losses.

Impact Assessment

An IA Checklist is not required because the report does not impact on policy and does not require a decision.

Consultation

Audit Services has consulted with all subjects of the reports.

1.0 Background

1.1 Standard 2500 of the Public Sector Internal Audit Standards (PSIAS) entitled Monitoring Progress states “the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management”. In practice this requirement is discharged by the Service Manager, Audit and Risk Management Services, ensuring that there are effective processes in place to capture assurances that audit recommendations have been implemented in full or, if this is not the case, that senior management are aware of the consequences and have accepted the risk.

1.2 The Internal Audit Plan submitted to the Pensions Committee annually contains an allocation of days for internal audit staff to carry out a formal follow-up review. This allocation is used to assess the extent to which recommendations previously agreed with management have been implemented. The outcomes of such reviews are formally reported to management. In addition, the summaries from those reviews are submitted to the Pensions Committee in line with standard working practices for issued audit reports.

1.3 It is not feasible within existing resources for Audit Services to carry out formal follow-up reviews of all areas previously audited. Therefore, to ensure compliance with the PSIAS, assurances are also formally sought from management via this PAR exercise. These PARs require management to provide an update of the action taken in respect of recommendations previously made. Pentana, Fife Council’s performance and risk management system, is used for this purpose. Based on these updates and taking cognisance of the potential risk if the actions previously agreed have not been implemented, a formal follow-up review may subsequently be undertaken by Audit Services and reported to Committee in line with paragraph 1.2 above.

1.4 Updates on recommendations with original / revised implementation dates preceding this date have been included in this exercise. The last PAR report was submitted to the former Superannuation Fund and Pensions Committee on 29 March 2022.

2.0 Assessment

2.1 Attached at Appendix 1 is a schedule summarising the work undertaken. The schedule also provides information surrounding report issue date, importance levels for each recommendation and commentary as to the current position of the implementation of the recommendations, where these have not been fully implemented.

2.2 Of the 30 recommendations referred to in Appendix 1, 21 of them have original implementation dates that have passed. Of those 21 recommendations, 15 (71.4%) have been fully implemented, 1 (4.8%) has been partly implemented and 5 (23.8%) have not yet been implemented. Assurances have been provided to Audit Services by management that the 1 partly implemented recommendation and 5 outstanding recommendations will be addressed, and revised timelines for completion have been specified. None of the outstanding recommendations have been assessed as critical.

2.3 Audit Services will continue to monitor progress towards implementation of all outstanding internal audit recommendations, reporting back to Pensions Committee as appropriate.

3.0 Conclusions

3.1 The PAR process ensures a structured approach to obtaining management assurances surrounding the action taken in respect of recommendations previously made.

3.2 Delays in the implementation of some recommendations have occurred for a number of reasons, including the impact of Covid-19. Revised implementation dates have been agreed with management as appropriate and the outstanding actions will be monitored until they are fully implemented.

List of Appendices

1. Appendix 1 – Summary of Progress on the Implementation of Internal Audit Recommendations (Internal Audit Reports issued since 27 February 2020).

Background Papers

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

- No background papers

Report Contact

Carolyn Ward

Audit Team Manager, Audit & Risk Management Services

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Appendix 1 - Results of Post Audit Reviews – Internal Audit Reports Issued since 27 February 2020									
Audit	**Report Number**	**Date Issued**	**Total Number of Recommendations**	**Fully Implemented**	**Partly Implemented**	**Not Implemented**		**No Longer Applicable**	**Current Position**
						Moderate	**Substantial**		
Internal Audit									
Management of Information - Pensions	P2	27/02/2020	4	2	1	0	1	0	Recommendations 1, & 2 were reported as being fully implemented on 29/03/22. Since then, Rec 4 has been partly implemented. Rec 3 – The introduction of an Information Asset Register (IAR), which was initially delayed by Covid-19, was due to be picked up during the planned corporate refresh by 31/03/22. An extension to 31/10/23 has been requested so that it can be addressed at the same time as the outstanding elements of Rec 4, which relate to agreeing, in conjunction with Fife Council's Records Manager, what records need to be retained and for how long. Management advised that addressing these related recommendations simultaneously should assist with progress.

Audit	Report Number	Date Issued	Total Number of Recommendations	Fully Implemented	Partly Implemented	Not Implemented		No Longer Applicable	Current Position
						Moderate	Substantial		
Internal Audit									
Training & Resources	P5	25/03/2021	5	5	0	0	0	0	Recommendations 2, 3, 4 and 5 were reported as being fully implemented on 29/03/22. Since then, Rec 1 has also been implemented in full.
Compliance with Regulations and Guidance	P6	29/03/21	6	5	0	1	0	0	Recommendations 1, 2, 4 and 5 were reported as fully implemented on 29/03/22. Since then, Rec 6 has also been implemented in full, leaving one outstanding recommendation (Rec 3). Rec 3 – As reported on 29/3/22, all policies and procedures will be reviewed by 31/12/22.
Performance Management	P7	02/06/22	12	3	0	6	3	0	Recommendations 1, 10 and 12 have been fully implemented. The original implementation date for Rec 2, which relates to the preparation of an overarching Business Plan was 30/09/22. This has been extended to 28/03/23 so that it is aligned with the corresponding date of the Pensions Committee to which the Business Plan is tabled. In relation to the other 8 outstanding recommendations, the original implementation dates are in the future.

Audit	Report Number	Date Issued	Total Number of Recommendations	Fully Implemented	Partly Implemented	Not Implemented		No Longer Applicable	Current Position
						Moderate	Substantial		
Internal Audit									
Pension Contributions	P8	20/06/22	3	0	0	1	2	0	The original implementation date for Rec 1 is 31/3/23 and for Recs 2 & 3 was 31/7/22. Recs 2 and 3 - These recommendations, which relate to the accuracy of deductions and reconciliations rely on the iConnect report working successfully. Evosys has been looking into problems with the iconnect report and, whilst some improvements have been made to date, there remains one outstanding area relating to the 50:50 scheme that needs to be addressed. To allow time for this enhancement, the implementation date has been revised to 30/04/23 for both recommendations.
Total			**30**	**15**	**1**	**8**	**6**	**0**	**Note: 9 of the 14 recommendations assessed as 'not implemented' have original implementation dates in the future.**

13th December, 2022

Agenda Item No. 8

NFI in Scotland

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

Wards Affected: All

Purpose

To submit to Members of the Pensions Committee a copy of Audit Scotland's national report on the 2020/21 NFI exercise, and an update on local planning and preparations for the 2022/23 NFI exercise.

Recommendation(s)

Members are asked to:

- note Audit Scotland's national report summarising the outcomes from the 2020/21 National Fraud Initiative (NFI) exercise, published August 2022 at Appendix A, in particular page 10 of the national report, which relates to Pensions;
- note progress to date re the 2022/23 NFI exercise; and
- note the completed NFI Self-Appraisal Checklist, for those charged with governance, at Appendix B.

Resource Implications

None.

Legal & Risk Implications

Participation in the NFI exercise is mandatory.

Impact Assessment

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

Consultation

No consultation required.

1.0 Background

1.1 The NFI is a biennial data matching exercise, co-ordinated at a national level by the Cabinet Office, designed to help participating bodies detect fraud and error. Computerised techniques are utilised to compare electronic data held by different public and private sector bodies in Scotland, England and Wales and identify data matches, which may, following further examination, uncover fraud or error. In Scotland, 132 public bodies participate in the NFI exercise, which is led by Audit Scotland. Participation is mandatory for Fife Council.

1.2 The Senior Responsible Officer for the NFI exercise in the Council is the Executive Director of Finance and Corporate Services, and the Key Contacts work within the Council's Corporate Fraud Team (CFT), reporting operationally to the Service Manager – Audit and Risk Management Services. Key Contact responsibilities include:

- fulfilling the organisation's privacy notice requirements (in conjunction with the organisation's data protection officer or equivalent)
- ensuring that the data formats guidance and data specifications are followed
- nominating appropriate users to upload data submissions, investigate the matches and act as the point of contact for other bodies about a match (preferred dataset contact)
- co-ordinating and monitoring the overall exercise
- ensuring that outcomes from the investigation of matches are recorded on the web application promptly and accurately

1.3 The mandatory datasets submitted for the biennial 2020/21 NFI exercise were as follows:

- Pensions – Fife Pension Fund (current & deferred)
- Payroll
- Housing Tenants (former tenants who completed a right to buy application during the period stated in the specification & current tenants)
- Housing Waiting List
- Blue Badge
- Resident Parking Permits
- Private Residential Care Payments (Council Funded)
- Taxi Driver Licenses
- Trade Creditors (Current & historic)
- Personal Budgets (paid as Direct Payments to current recipients)
- Council Tax Reduction Scheme
- Council Tax Single Person Discount / Exemptions
- Electoral Register

1.4 Matches were made available to participating bodies, including the Council, for investigation in January 2021. Whilst local reports on pensions specific progress and outcomes are submitted periodically to the Pensions Committee, Audit Scotland publishes a national report following each biennial NFI exercise which summarises key messages and national outcomes recorded.

2.0 Audit Scotland National Report

2.1 The most recent national report, published in August 2022, which covers the 2020/21 NFI exercise, summarises key messages and national outcomes recorded for all participating public bodies since the last report was issued in July 2020. The report is attached for noting at Appendix A.

2.2 The national report states that the 2020/21 NFI exercise identified outcomes valued at £14.9m in Scotland, a fall in £0.4m from the previous exercise. The reasons behind the reduction in outcomes are detailed in the report.

2.3 National pensions outcomes for the 2020/21 exercise, detailed on page 10 of the national report, are valued at £1.5M, down £1.7M from the 2018/19 NFI exercise. The report states that pension outcomes may have fallen due to the "Tell Us Once" reporting process and controls working effectively within pension bodies.

2.4 A pensions case study is also highlighted on page 10 of the national report, which relates to a fraud that was perpetrated in Fife and previously reported to the Superannuation Fund and Pensions Committee in more detail in December 2021. The overpayment of £6,601 was repaid in full.

2.5 Page 3 of the national report outlines 3 recommendations for improvement for all participating bodies. One of the 3 recommendations states, to ensure that their organisation's planning, approach, and progress during the next NFI exercise is appropriate, the NFI Self-Appraisal Checklist should be reviewed by the Audit Committee, or equivalent, and staff leading the NFI process. The national report contains a link to the NFI Self-Appraisal Checklist.

2.6 The Self-Appraisal Checklist has been completed by officers in respect of the 2022/23 NFI exercise and Part A, for those charged with governance, is attached for your information at Appendix B.

3.0 2022/23 NFI Exercise

3.1 The 2022/23 biennial NFI exercise commenced earlier this year. Fife Council received instructions from the Cabinet Office, via the Audit Scotland NFI Team, surrounding how it should prepare for the 2022/23 NFI exercise and steps were taken to plan for the extraction of required data sets in line with the detailed specifications and timetable.

3.2 The data sets were uploaded to the NFI Website in line with the National Fraud Initiative in Scotland 2022/23 - Instructions for Participants, this part of the exercise commenced Friday 7 October 2022. Data matches will be made available to the Council for investigation from Thursday 26 January 2023. Training on how to deal with the data matches along with responsibilities, investigation procedures and how to record outcomes on the NFI Website is being delivered by the Council's Corporate Fraud Team.

4.0 Conclusions

4.1 Audit Scotland publishes a national report following conclusion of each biennial NFI exercise, summarising corresponding key messages and national outcomes recorded. The most recent report, which relates to the 2020/21 NFI exercise, was published in August 2022.

4.2 The 2022/23 biennial NFI exercise commenced earlier this year and steps were taken to extract the required data sets and upload them to the NFI Website in line with the detailed specifications and timetable.

4.3 Part A of the NFI Self-Appraisal Checklist, for those charged with governance, has been completed by officers and is attached at Appendix B for noting.

List of Appendices

A. The National Fraud Initiative in Scotland 2022
B. NFI Self-Appraisal Checklist (Part A)

Report Contact:

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The National Fraud Initiative in Scotland 2022

AUDIT SCOTLAND

Prepared by Audit Scotland
August 2022

Key messages

The National Fraud Initiative (NFI) is a counter-fraud exercise which aims to prevent and detect fraud. The exercise operates across the UK public sector and includes 132 public bodies in Scotland. The NFI shares and matches data held by public bodies and helps confirm that services and payments are provided to the correct people. See Appendix 1 for more information about the NFI exercise.

1 The 2020/21 NFI exercise has identified **outcomes** valued at £14.9 million (see page 4).

2 The cumulative outcomes from the NFI in Scotland since 2006/07 are now £158.5 million. Across the UK, the cumulative total of NFI outcomes are now £2.4 billion (see page 4).

3 The overall level of fraud identified by the NFI has fallen since our last report. Outcomes from the Scottish NFI exercise fell by £0.4 million in 2020/21, from £15.3 million in 2018/19. The reduction in outcomes could be due to less fraud and error in the system, strong internal controls or due to some key data sets from previous exercises not being included in the latest exercise (see page 4).

An NFI **outcome** describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise as well as an estimate of future losses that it prevents (see Appendix 3).

4 Data sharing enables matches to be made between bodies and across national borders. Data submitted by Scottish bodies for the 2020/21 NFI exercise helped other organisations in Scotland and across the UK to identify outcomes of £1.2 million (see page 17).

5 Most bodies that participate in the NFI continue to demonstrate a strong commitment to counter fraud and the NFI (see page 18–19). However, a lower percentage of participating public bodies managed their roles in the 2020/21 NFI exercise satisfactorily compared to the 2018/19 NFI exercise.

6 Pilot work to look at potential data matches for future NFI exercises identified £2.2 million in incorrect non-domestic rates relief. The pilot work also identified one £25,000 fraudulent Covid-19 grant payment and 1,737 national entitlement travel cards which should have been cancelled (see pages 20–23).

Recommendations

1. Maximise the benefits

All participating bodies in the NFI exercise should ensure that they maximise the benefits of their participation. This includes reviewing matches timeously and prioritising high-risk matches.

NFI users should review the guidance within the NFI secure web application, to help ensure the most effective use of limited resources when reviewing and investigating NFI matches.

2. Self-appraisal

The NFI self-appraisal checklist should be reviewed by the audit committee, or equivalent, and staff leading the NFI process. This is to ensure that their organisation's planning, approach, and progress during the next NFI exercise is appropriate.

3. Take improvement action

Where local auditors have identified specific areas for improvement, participating bodies should act on these as soon as possible.

Outcomes from 2020/21 National Fraud Initiative

Trends in overall outcomes between 2018/19 and 2020/21 NFI exercises

The number of public bodies participating in the NFI exercise has increased by eight since the last exercise, to 132 bodies.

Outcomes in Scotland have fallen by £0.4 million since the last exercise, from £15.3 million to £14.9 million.

The number of matches generated has fallen by over 73,000 since the last exercise, to 507,354.

NFI participants include all councils, NHS bodies, colleges and all larger central government bodies, for example, the Scottish Government, Revenue Scotland and Transport Scotland. In addition, 14 councils include data from Arm's-Length External Organisations (ALEOs), joint boards or subsidiaries within their NFI submissions. A list of all participating bodies is available on our website.

Reduced levels of outcomes could be due to less fraud and error in the system, strong internal controls or some key datasets from previous years not being included in the latest exercise. Residential care home data, direct payments and social care customers' data were not matched in the 2020/21 exercise due to a legal question being raised around the definition of patient data. Immigration data was also not included in the 2018/19 and 2020/21 exercises due to restrictions placed on it by the Home Office.

NFI participants have identified pressures on staffing and services particularly because of the Covid-19 pandemic, and the strengthening of controls where previous fraud or error has been identified, as contributing to reduced outcomes in the 2020/21 exercise.

NFI outcomes

20/21

£14.9 million

NFI outcomes in Scotland from the 2020/21 exercise

Since 06/07

£158.5 million

NFI outcomes cumulatively in Scotland since 2006/07

UK NFI outcomes

£442.6 million

from the 2020/21 exercise

£2.4 billion

cumulatively since 2006/07

4 cases

referred for prosecution in Scotland

211

Having fewer outcomes provides some assurance there does not appear to be significant problems in the areas covered by the exercise. However, participants still benefit from the deterrent effect the NFI creates.

The fall in the number of matches is mainly due to the matches between housing benefit and payroll or pensions not being included in the matches returned to councils during the 2020/21 NFI exercise. Instead, this data was matched in Department for Work and Pensions (DWP) systems (see page 11). In addition, the removal of immigration, residential care home, direct payments and social care customers' data has also reduced the number of matches.

Four cases were referred to the Crown Office and Procurator Fiscal Service for prosecution. One resulted in Police Scotland issuing a caution and the offender is now repaying the money. The outcomes from the other three cases are not yet known.

Although the main purpose of the NFI is to ensure funds and services are provided to the correct people, the review of NFI matches may also identify that a customer is entitled to additional services or payments.

A breakdown of the recorded outcomes for Scottish participants is on our Counter-fraud hub.

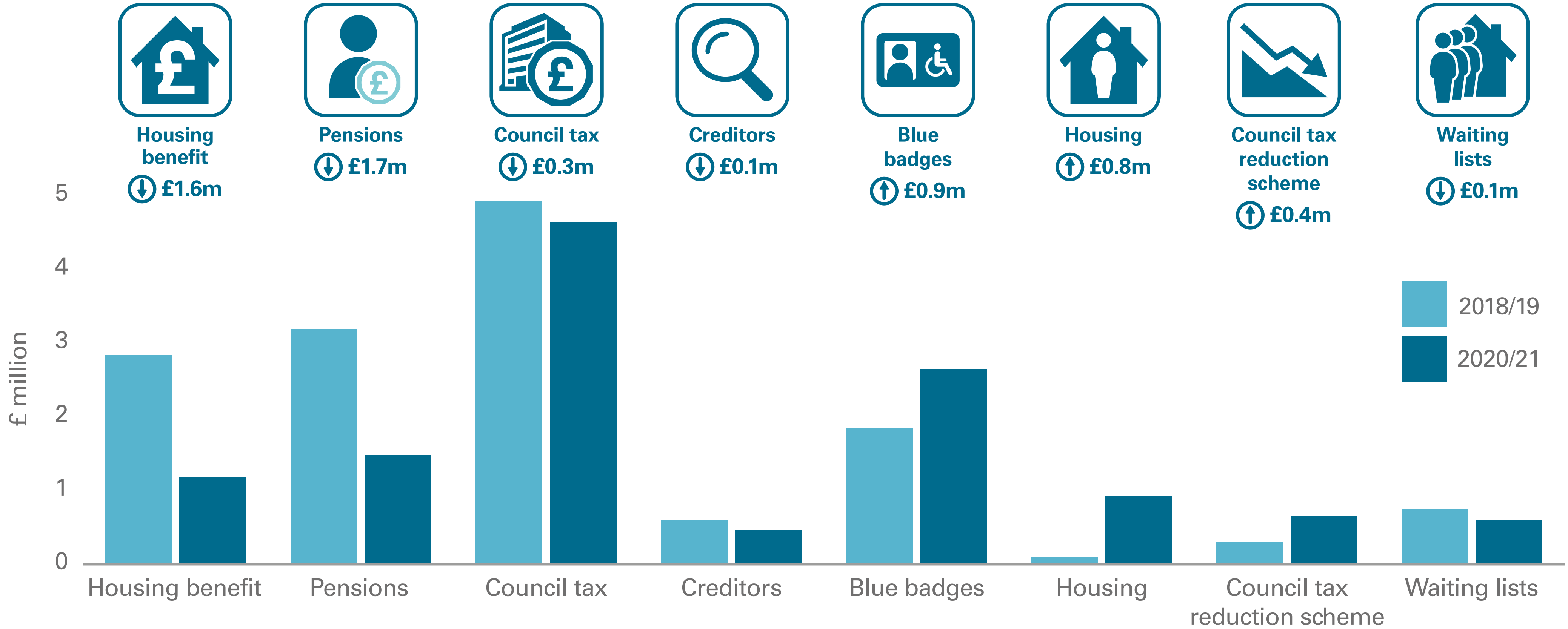
Results

Overall outcomes

How the latest outcomes compare to the last exercise

The areas with significant changes are:

NFI outcomes in Scotland have fallen by £0.4 million, to £14.9 million in the 2020/21 exercise



213

NFI participants have cited the following reasons as to why outcomes are less in the 2020/21 exercise:

- staff have had less time available to commit to NFI because of the added pressures on services caused by the Covid-19 pandemic
- external agents were used instead of the NFI to carry out certain data matching such as the council tax single occupant discounts
- new controls were introduced because of previous errors identified through the NFI
- a new system was introduced for reporting the death of customers.

More information about the outcomes for each category is provided on pages 8 to 15.

A full breakdown of outcomes for each participating body is available on our Counter-fraud hub.

Once overpayments have been identified, public bodies can take appropriate action to recover the money.

31
March

At 31 March 2022
£4.3 million
(95%) of cash overpayments were being recovered

How NFI matches help to identify areas for improvement

The NFI exercise has helped participants to identify system weaknesses and to make improvements. These include the introduction of:

- a more robust control environment in the creditors system. This includes monthly purchase ledger reviews, improved checks on new suppliers, and controls to identify duplicate payments and duplicate suppliers
- revised procedures when setting up new suppliers
- a review and cleansing of data held in systems
- strengthened controls in the blue badge system
- improved controls around the change of bank details
- a review of policies aimed at supporting good governance such as declaring interests, registering of conflicts of interest and checks for identifying potential related parties.

Council tax discounts

People living on their own, or with no countable adults in the household, are eligible for a 25 per cent single person discount (SPD) on their annual council tax bill.

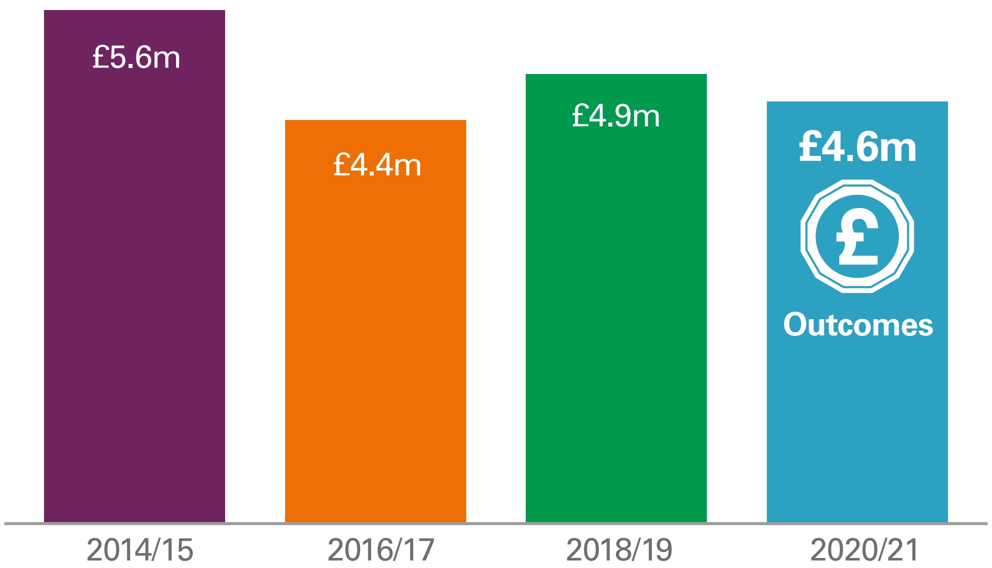
£4.6 million
Total outcomes in 2020/21 exercise

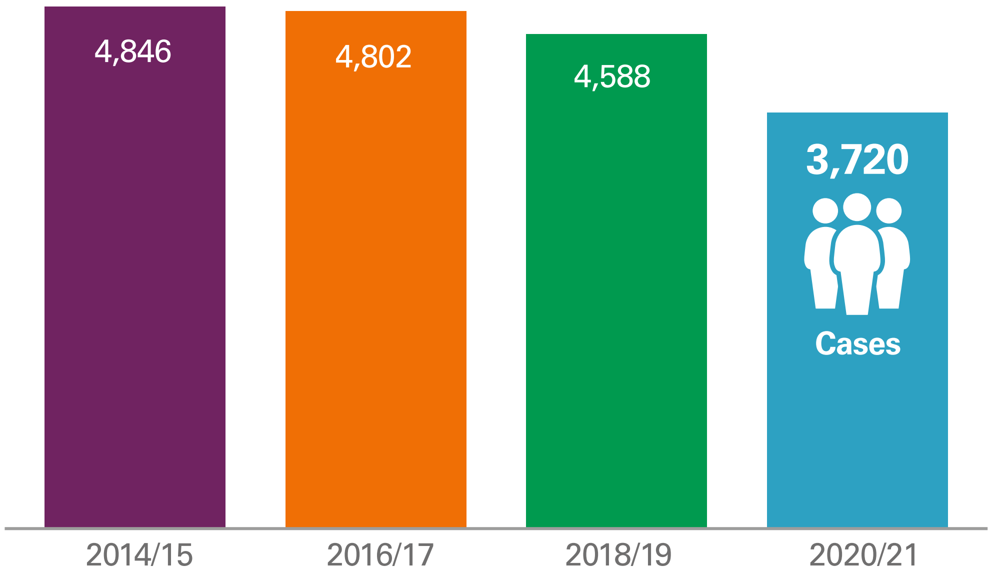
£1,248
Average outcome

3,720
Cases

The 2020/21 NFI exercise found that the total council tax discount incorrectly awarded across Scottish councils totalled £4.6 million.

Four councils reported that they did not use the NFI and instead used alternative data matching or verification arrangements to review SPD cases during 2020/21. The graphs below include outcomes from the other 28 councils.





Note. Due to an error with the data deletion schedule in the Cabinet Office, some supporting evidence for 11 councils was inadvertently deleted. Therefore, full supporting documentation is not available for these councils. The Cabinet Office has taken steps to prevent this error from re-occurring.

Council tax data is matched to:

- Electoral register

Blue badges

The blue badge parking scheme allows people with mobility problems to park for free at on-street parking meters, in 'pay and display' bays, in designated blue badge spaces, and on single or double yellow lines in certain circumstances.

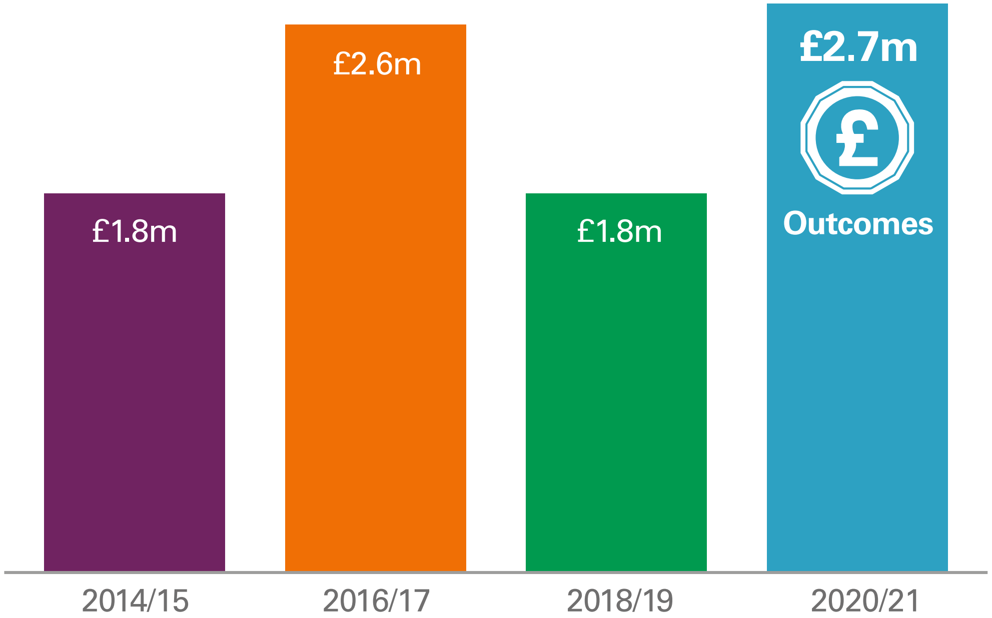
£2.7 million
Total outcomes in 2020/21 exercise

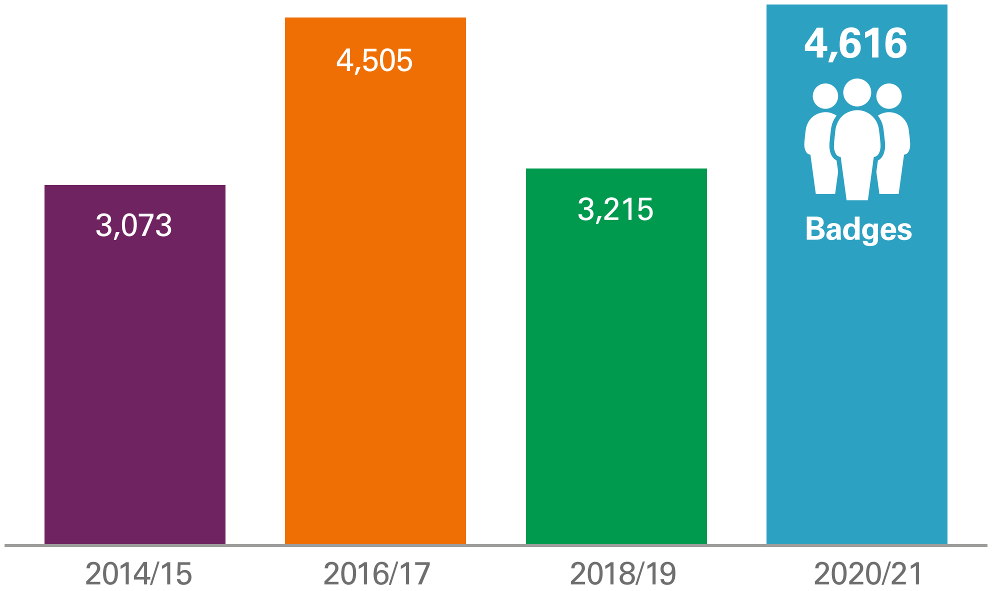
4,616
Total number of blue badge outcomes in 2018/19 exercise

1,401
Increase from NFI 2018/19 exercise

The 2020/21 NFI exercise identified 4,616 blue badge outcomes, an increase of 1,401 (44 per cent) since the last exercise. The estimated value of these outcomes is £2.7 million.

Blue badges are sometimes used or renewed improperly by people after the badge holder has died. It is an offence for an unauthorised person to use a blue badge.





Blue badge data is matched to:

- Deceased persons
- Amberhill data[1]

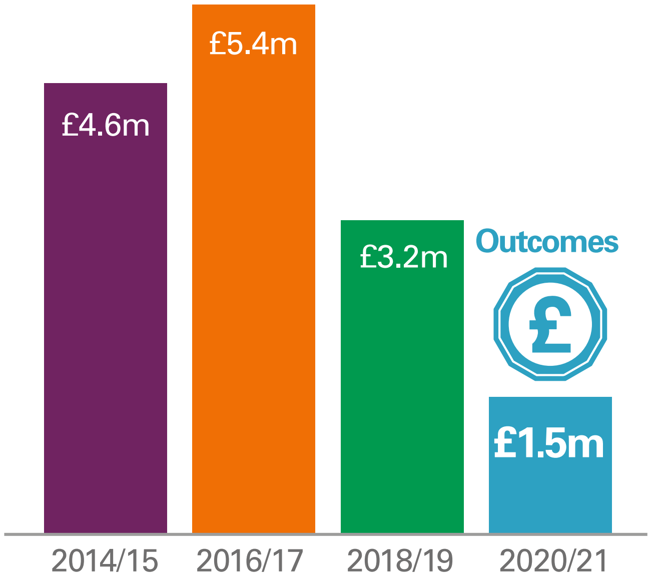
1. Amberhill is a system used by the Metropolitan Police to authenticate documents presented for identity

Pensions

The NFI provides both councils that administer pensions and the Scottish Public Pensions Agency (SPPA) with an efficient and effective way of checking that they are only paying people who are alive.

£1.5 million
Total outcomes in 2020/21 exercise

£1.7 million
Reduction on the 2018/19 NFI exercise



In total, pension outcomes for the 2020/21 NFI exercise are £1.5 million, down £1.7 million (53 per cent) from the 2018/19 NFI exercise. This includes two outcomes identified through the pre-application screening (AppCheck)[2] part of the NFI system.

Pension outcomes may have fallen due to the 'tell us once'[3] reporting process and to controls working effectively within pension bodies.

Pension data is matched to:

- Deceased persons
- Payroll
- Housing benefit
- Injury benefits
- Amberhill data

Case study

An NFI match identified one fraud with a gross annual pension amount of £10,560 which was stopped and resulted in an overpayment of £6,601. The fraudster had notified Fife Pension Fund of a change of bank details for receipt of the pension after the pensioner had died. The council reported the fraud to Police Scotland which identified the person who submitted the fraudulent bank mandate. Following a police caution, the full amount was repaid. This case was reported as part of a 2020/21 NFI Progress Update to both the council's Standards and Audit Committee and the Superannuation Fund & Pensions Committee in December 2021 for their consideration.

2. AppCheck is an NFI data matching service used at point of applications for a service or benefit.

3. 'Tell us once' is a service that lets you report a death to most government organisations when registering the death.

Housing benefit

Housing benefit helps people on low incomes pay their rent. The NFI provides councils and the DWP with the opportunity to identify a wide range of benefit frauds and errors.

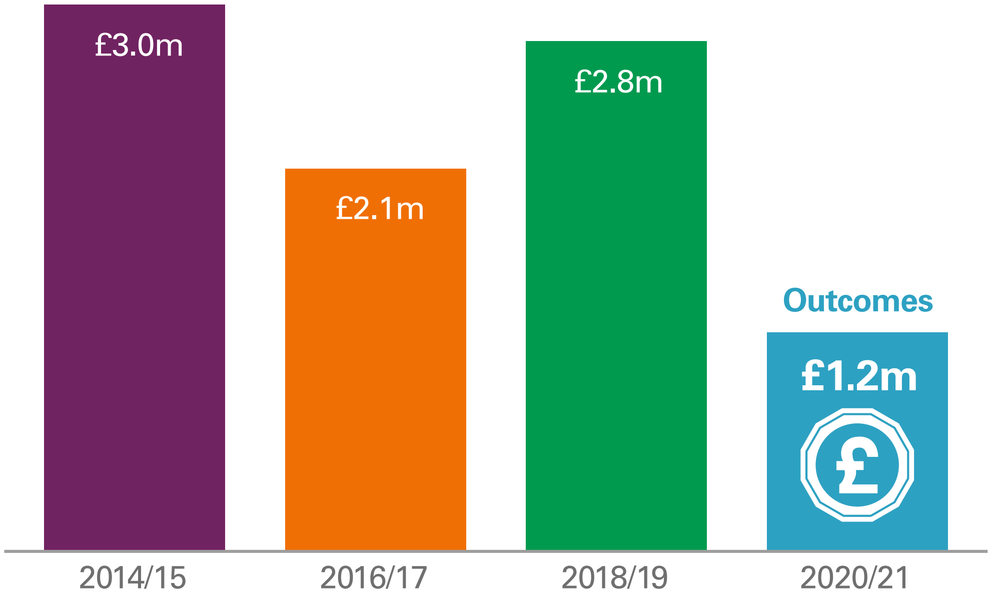
£1.2 million
Total outcomes in 2020/21 exercise

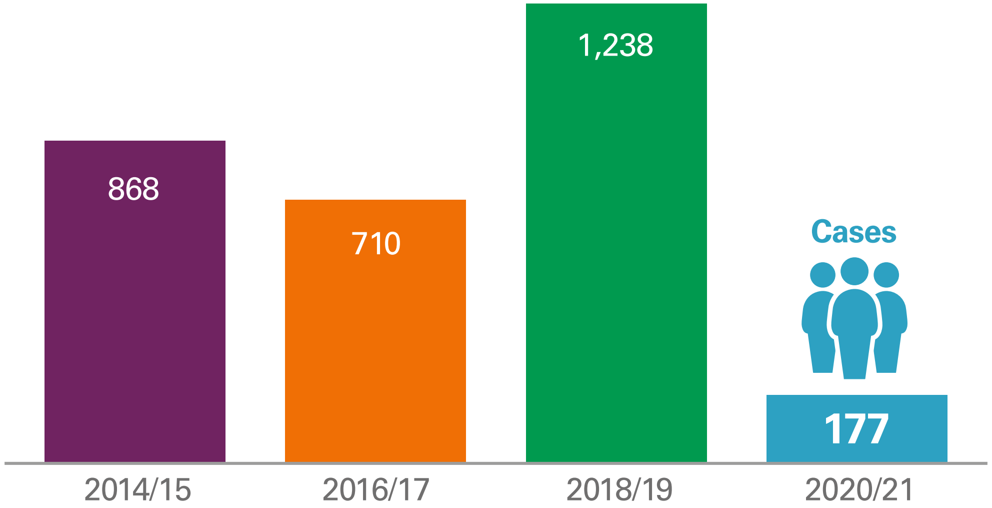
£6,663
Average individual value of overpayments

177
Cases

The value and number of housing benefit cases recorded with overpayments has significantly reduced, from £2.8 million from 1,238 cases in the 2018/19 NFI, to £1.2 million from 177 cases in the 2020/21 NFI. Over the same period, the average individual value of overpayments has risen from £2,292 in 2018/19 to £6,663 in 2020/21.

The fall in outcomes is mainly due to the matches between housing benefit and payroll or pensions not being included in the 2020/21 NFI exercise. These matches historically identified significant outcomes.





Housing benefit data is matched to:

- Student loans
- Housing benefit
- Housing tenants
- Right to buy (in England)
- Licences
- Deceased persons
- Amberhill data

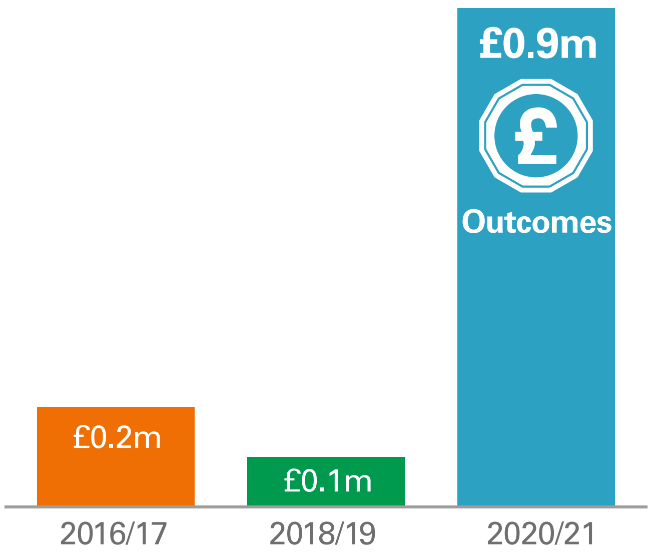
These matches were not included in the 2020/21 NFI exercise as similar data matching is undertaken by the DWP's Verify Earnings and Pensions (VEP) Alerts service which identifies discrepancies between payroll and pension details held by HM Revenues & Customs and council benefits services. Alerts from VEP are sent to councils to investigate discrepancies.

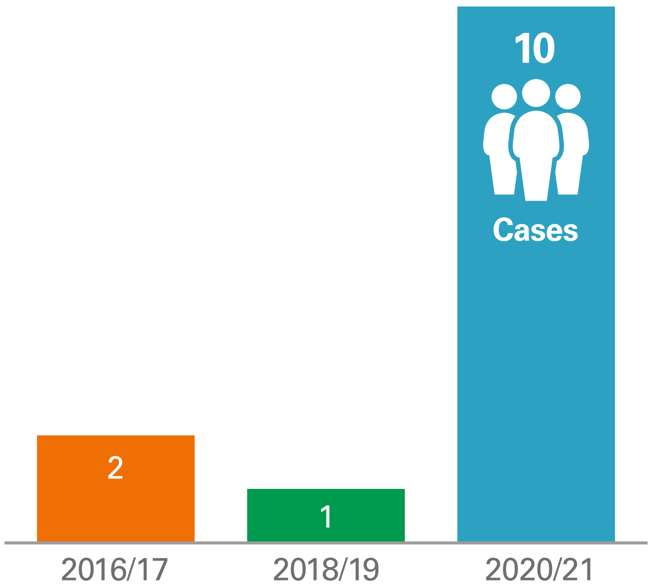
Housing tenancy

The NFI uses housing tenants' data to identify possible cases of tenancy fraud. This may happen when a tenant has sublet their property. It also helps identify cases where the tenant has died, and the property is either empty or has other individuals living in it.

£0.9 million
Total outcomes in 2020/21 exercise

10
Cases





Housing tenancy data is matched to:

- Waiting list
- Housing benefit
- Housing tenants
- Right to buy (in England)
- Deceased persons
- Amberhill data
- Council tax reduction

Case study

An NFI match identified a Midlothian Council tenant who had failed to disclose that they had purchased a property within another council area at the same time they had been allocated a council house. Enquiries established the tenant moved into the owned property ten years ago and sublet their council house to a family member. The council has recovered the property.

NFI matches resulted in councils recovering ten properties as part of the 2020/21 NFI exercise, compared to one property in 2018/19.

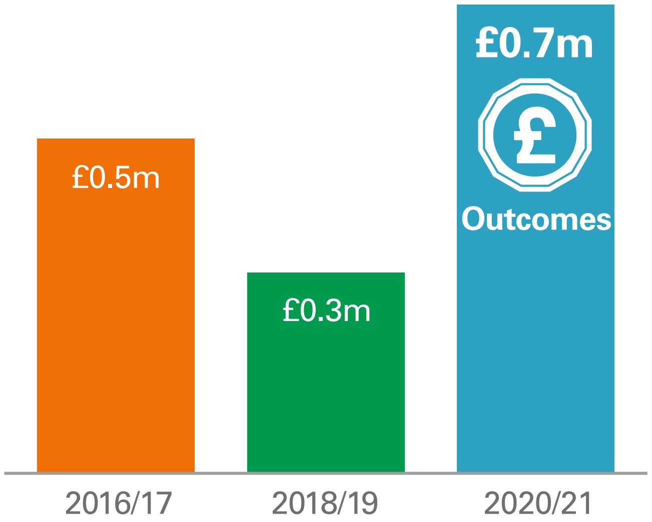
The estimated value of these cases is £0.93 million, based on a calculation of the average four-year fraudulent tenancy.

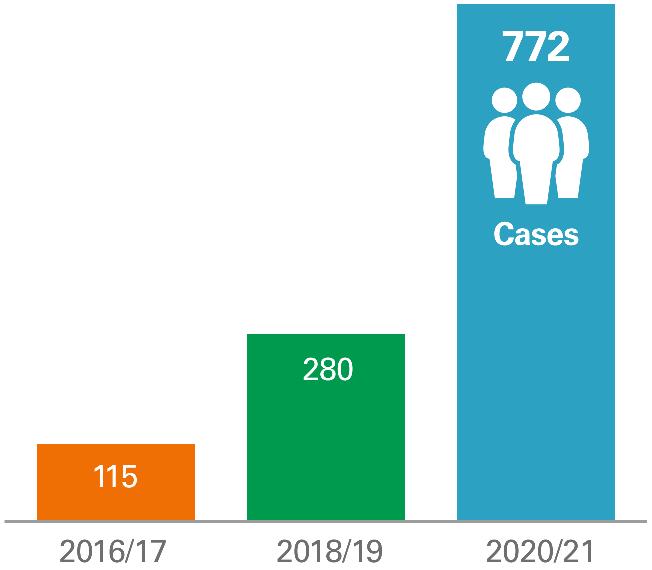
Council tax reduction

Council tax reduction helps people on low incomes to pay their council tax bills. The NFI provides councils with the opportunity to identify a range of council tax reduction frauds and errors.

£0.7 million
Total outcomes in 2020/21 exercise

772
Cases





Council tax reduction data is matched to:

- Council tax reduction
- Payroll
- Pensions payroll
- Housing benefit
- Housing tenants
- Right to buy (in England)
- Licences
- Deceased persons
- Amberhill data

Case study

An NFI match identified that a council tax reduction claimant in Renfrewshire Council had failed to declare their company pension and pension lump sum. This resulted in the claimant fraudulently receiving £14,450 council tax reduction. This amount is being recovered by the council.

This is a relatively new match which has been included in the NFI since 2016/17.

Outcomes of £0.7 million were identified in the 2020/21 NFI, an increase of £0.4 million from the £0.3 million reported in 2018/19.

Councils have identified 772 cases in 2020/21, more than 2.5 times the number of cases in 2018/19 (280).

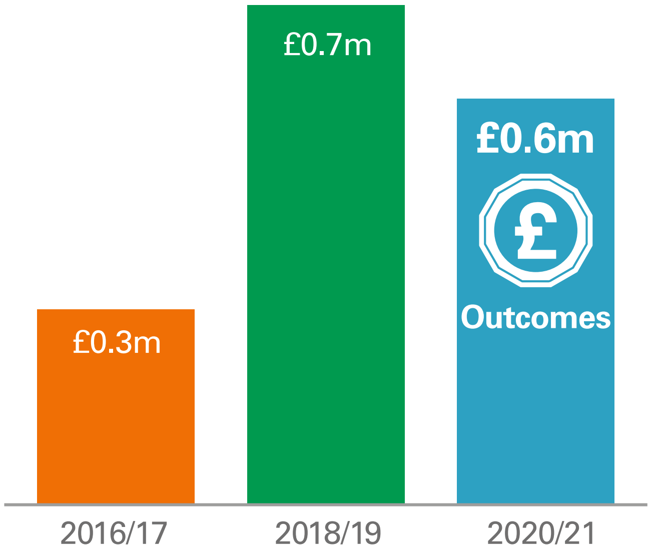
One council advised that the increase in outcomes was directly caused by the Covid-19 pandemic. For example, an increase in mortality rates for those with underlying health conditions disproportionately impacted on people in receipt of disability benefits, council tax reduction and blue parking badges. In addition, there was an increase in the number of un-notified increases in the hours worked by those in lower paid service jobs who are more likely to be in receipt of council tax reduction.

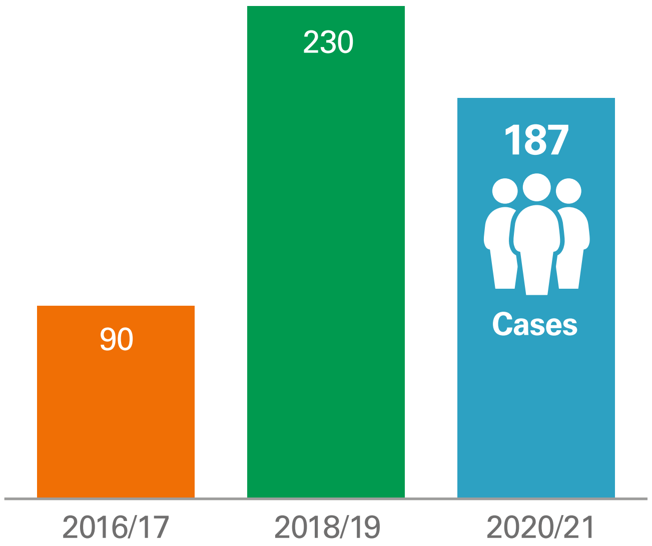
Housing waiting lists

The NFI uses housing waiting list data to identify possible cases of waiting list fraud. This may happen when a person has registered on a council's waiting list but there are possible undisclosed changes in circumstances or false information has been provided. Social housing provides affordable accommodation, allocated according to need. It usually provides a more secure, long-term tenancy when compared to private renting.

£0.6 million
Total outcomes in 2020/21 exercise

187
Cases





Councils identified 187 cases in 2020/21 where applicants were removed from waiting lists (230 in 2018/19).

The estimated value of these cases is £0.6 million. This is based on a calculation of the annual estimated cost of housing a family in temporary accommodation and the likelihood a waiting list applicant would be provided a property (see Appendix 3).

Housing waiting list data is matched to:

- Waiting list
- Housing benefit
- Housing tenants
- Right to buy (in England)
- Deceased persons
- Amberhill data

Creditors

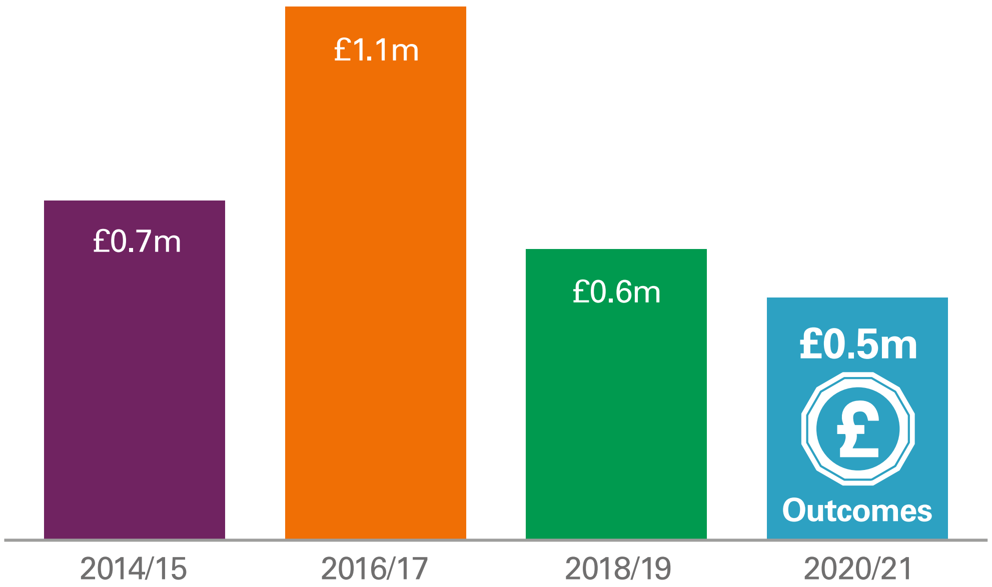
The NFI provides an efficient way to check for duplicate payments and that payments are only made to appropriate creditors. A creditor is a person or an organisation that a public body pays money to for a good or service.

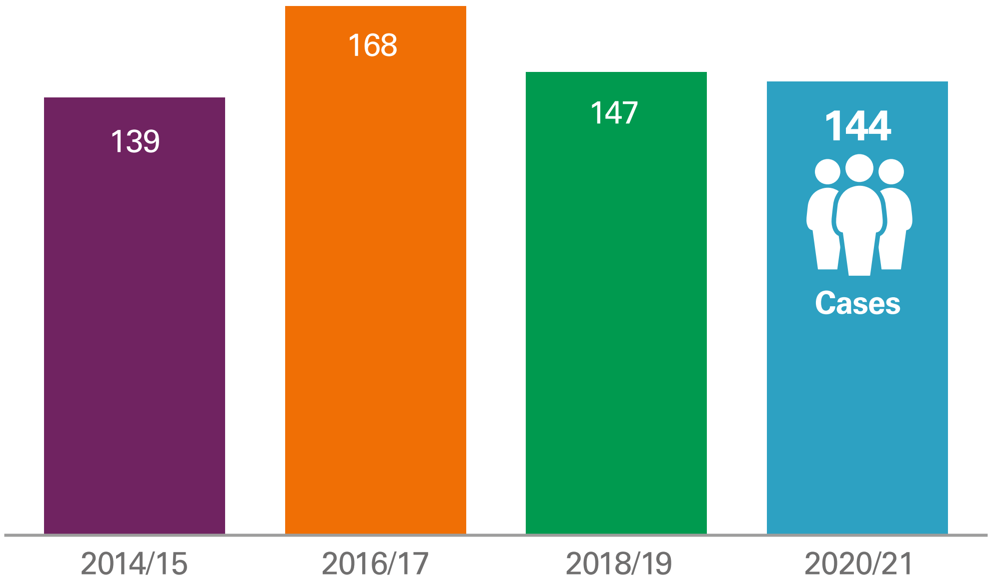
£0.5 million
Total outcomes in 2020/21 exercise

100%
Recovery action is taking place

144
Cases

The 2020/21 NFI exercise identified 144 creditor outcomes of £0.5 million, a fall of three outcomes and £0.1 million from 2018/19. Recovery action is taking place for these overpayments.





Creditor data is matched to:

Creditor data

Payroll

Other data matches

Payroll

The NFI also matches all participating bodies' employee payroll data as well as those of MSPs and councillors to identify cases of potential payroll fraud. The 2020/21 NFI exercise identified three outcomes valued at £27,000 compared to eight outcomes valued at £20,000 in the 2018/19 exercise.

Past NFI exercises have identified larger outcomes for payroll. This fall in outcomes is partly due to immigration data not being included in the 2020/21 exercise due to restrictions placed on it by the Home Office.

2018/19

eight outcomes valued at

£20,000

2020/21

three outcomes valued at

£27,000

Case study

An NFI match identified an employee who left Fife Council in September 2019 and who continued to be paid their salary until February 2021. The council overpaid a total of £20,288 to the ex-employee. Recovery of the overpayment is in progress and internal audit services have investigated the circumstance surrounding the overpayment. Recommendations for improvements have been discussed with management and an audit on the council's leavers process is part of the 2022/23 Internal Audit Plan. This case was reported as part of a 2020/21 NFI Progress Update to the council's Standards and Audit Committee in December 2021 for consideration.

Case study

New NFI matching of non-domestic rates small business bonus scheme (SBBS) in East Dunbartonshire Council identified a case where a ratepayer had failed to declare other business premises in another council area. This resulted in almost £11,000 in SBBS relief being claimed from April 2018. The case is being referred to the Crown Office and Procurator Fiscal Service for prosecution. We understand this is the first business rates case to be reported for prosecution in Scotland.

Matches benefiting other public bodies

A key benefit of a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders. For those public bodies taking part in the NFI which may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may do so.

Data provided by Scottish participants for the 2020/21 NFI exercise helped other public bodies, both within and outwith Scotland, to identify outcomes worth £1.2 million (a reduction of £0.5 million from 2018/19).

Most of these outcomes relate to housing benefits, housing waiting list and council tax reductions where, for example, payroll data from an NHS board may allow a council to identify a council tax reduction fraud or error.

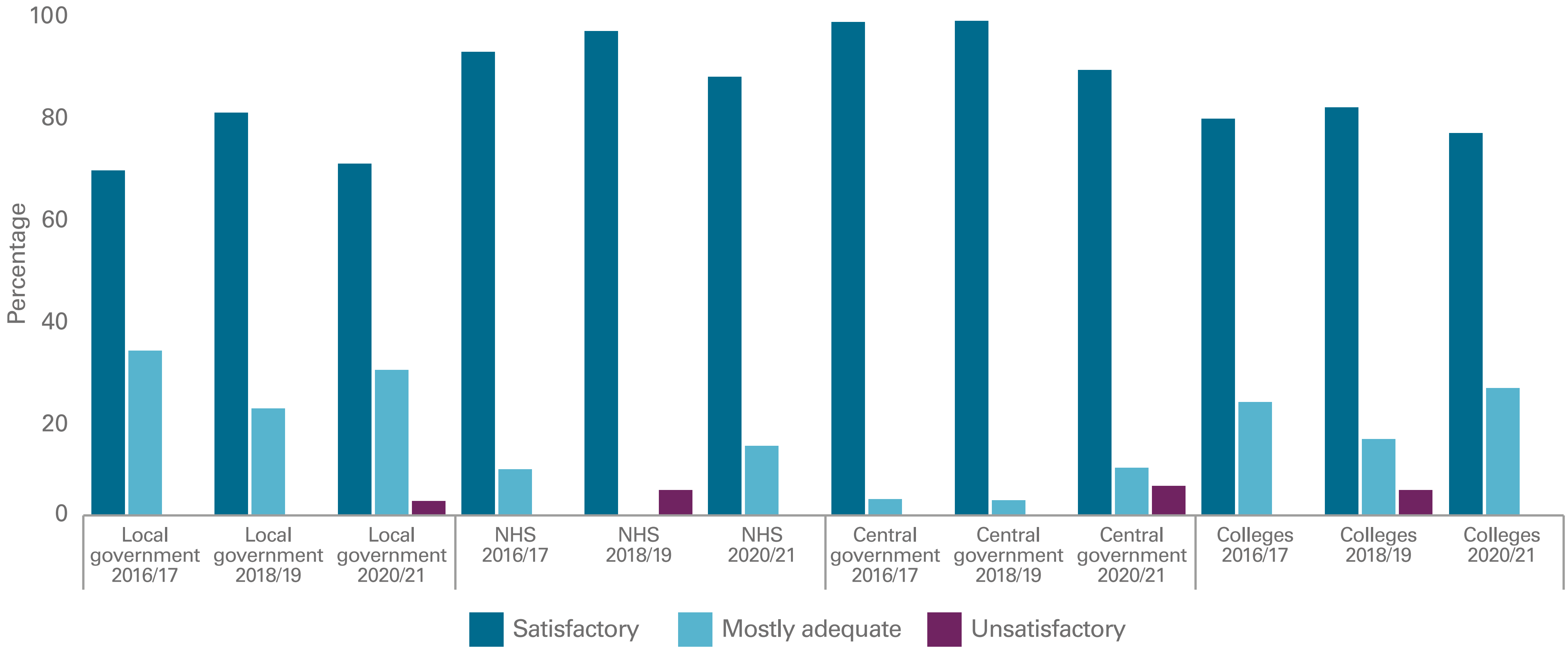
	Councils	Central government	NHS	Colleges	Total
	£601,591	£483,943	£100,456	£0	£1,185,990
2018/19	£854,760	£759,879	£120,408	£12,672	£1,747,719

How bodies worked with the NFI in 2020/21

How bodies work with the NFI

Overall rating of NFI arrangements by year

Auditors reviewed each participating body's planning and progress with the NFI and provided recommendations for improvement where appropriate.



Most participating bodies continue to demonstrate a strong commitment to counter fraud and the NFI. However, across all sectors, a smaller percentage of participating bodies managed their roles in the 2020/21 NFI exercise satisfactorily compared to the 2018/19 NFI exercise.

Auditors identified that some bodies could be more pro-active in their approach to the NFI. One central government body was unable to review matches due to a cyber-attack, one council did not review matches citing resource issues as the reason, and a central government body was unable to action matches due to the impact of reallocating resources to the provision of Covid-19 grant funding to organisations.

Six **key contacts** felt they did not have sufficient time and/or resources to allow them to oversee the NFI exercise. In four bodies, the key contact considered that they lacked sufficient authority to seek action across the relevant departments.

The Covid-19 pandemic created additional pressures for public bodies and impacted upon the resources available to support the NFI exercise. Auditors reported that 15 bodies reduced their participation in the NFI exercise due to resourcing issues including staff vacancies, sickness absences or changing priorities as a result of Covid-19.

We recommend that all bodies use our checklist to self-appraise their involvement in the NFI before and during the 2022/23 NFI exercise. For the 2020/21 NFI exercise, 64 per cent of bodies completed the checklist, although not all presented it to their audit committee; ten per cent reviewed it but did not complete it; and just over a quarter did not review it. This was reported as being because either the key NFI contact had changed and was unaware of the checklist, staff had prior experience of the NFI process, and Covid-19 pressures.

A **key contact** is appointed by the NFI participating body. They are responsible for coordinating and monitoring the overall NFI exercise, ensuring outcomes from investigations are accurately recorded and nominating appropriate users of the NFI system.

Public bodies usage of our NFI checklist

64% completed the checklist

26% did not review it

10% reviewed it but did not complete it

Pilots help identify the value of extending the NFI exercise

Audit Scotland undertakes new areas of data matching on a pilot basis to test their effectiveness in identifying fraud.

Only pilots which achieve matches that demonstrate a significant level of success are extended nationally and included in the main NFI exercise going forward. A small number of serious incidents of fraud or a larger number of less serious ones may both be considered successful.

The NFI pilots undertaken or under way over the last two years are shown on the following pages.

Exemptions for NHS dental and ophthalmic charges

Data matching was undertaken to help identify NHS patients who have claimed to be exempt from NHS dental and ophthalmic charges, when they are not entitled. Patient exemption claims were matched to payroll data to ensure that dental and ophthalmic exemptions, eg for glasses or dental treatment, are only awarded to those patients qualifying for exemptions.

NHS Scotland Counter Fraud Services (CFS) received the matches in the second half of 2019. It worked to identify the highest-risk matches and then started verifying payroll details before undertaking investigations. As part of this investigative work, CFS asked dentists and opticians to supply the original exemption claim signed by the patient. However, CFS was unable to progress this part of the investigation due to dentists, opticians and the CFS being required to close down due to Covid-19 lockdown restrictions. CFS then decided not to use the matches as originally intended but instead use them as intelligence, for example, as an alert if the same people claim again. CFS considered it not worthwhile re-doing the pilot in 2021 as there were very few exemptions claimed between April to December 2020. This was due to opticians and dentists initially being closed and then only able to do emergency treatment which was free of charge. CFS intends to re-run the exercise after new payroll data goes into NFI in autumn 2022.

Covid-19 grants for businesses

Following a Covid-19 grants data matching pilot exercise in England in the summer of 2020, it was decided to expand the English pilot to cover Covid-19 business grants paid to Scottish businesses.

These grants were paid under the Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF). Scottish councils submitted data from early in 2021. Initial matches were released in April 2021, however, match numbers were low. The Scottish schemes were more complex than similar schemes in other parts of the UK, eg in respect to second and subsequent properties held by each ratepayer. As a result, the algorithms were rechecked and additional matching was undertaken.

Additional matches were released in September 2021. Despite the data having been rematched, only one fraudulent grant payment of £25,000 was identified. Due to Covid-19 grant payments having stopped, it is not expected that this matching will be required again. However, the systems are in place should the matching be required for any similar grants or payments in the future.

Only one fraudulent grant payment of £25,000 was identified

Additional counter-fraud measures introduced by NFI participants in respect of Covid-19 grant funding

Auditors identified that around 43 per cent of NFI participating bodies awarded Covid-19 funding during the pandemic.

Almost three-quarters of these bodies introduced additional counter-fraud measures such as new internal controls. This included actively working through national networks, such as the Scottish Local Authority Investigators Group, the Institute of Revenues Rating and Valuation, the National Anti-Fraud Network, and with Police Scotland as well as strengthening internal controls. This resulted in, for example, Dundee City Council preventing 143 attempted fraudulent applications valued at £381,500 from being paid in 2020/21. It also resulted in Aberdeenshire Council identifying eight fraudulent grants totalling £107,000 plus 14 attempted frauds totalling £151,000. The bodies that did not take additional counter-fraud measures reported these were not necessary as for some, payments were made to existing customers using the existing controls whereas others relied on existing controls around the setting up of new suppliers and associated payments.

Aberdeenshire Council identified eight fraudulent grants totalling £107,000

Non-domestic rates – Small Business Bonus Scheme

In 2019/20, a pilot was undertaken with the Scottish Government and seven Scottish councils to help identify businesses inappropriately claiming Small Business Bonus Scheme (SBBS) relief. The SBBS provides rates relief to owners of non-domestic properties with rateable values under certain thresholds.

The seven participating councils provided 81,827 ratepayer records to the NFI system, which were then matched across the councils and with data from Companies House in order to identify SBBS fraud. The pilot identified £412,974 in incorrect awards.

Due to the success of this pilot, a national roll-out of this data matching exercise was carried out in 2021/22.

The 2021/22 pilot identified 17,676 matches which resulted in £2.2 million in incorrect SBBS relief being identified in 208 SBBS awards. Councils will now try to recover SBBS which was incorrectly awarded. Recovery is already in progress for 119 cases with a value of almost £745,000 in incorrectly awarded relief.

Given the success of the 2021/22 pilot, consideration is now being given as to how this data match can be repeated on a regular basis as part of the main NFI exercise. The pilot report is available on our website.

The pilot identified £412,974 in incorrect awards

National entitlement cards for travel

The National Entitlement Card (NEC) is Scotland's National Smartcard. Supported by the Scottish Government to deliver national and local services, the NEC makes it convenient for people to access various public services and facilities with only one card. The NEC can be used for services such as a travel pass, a library card, a leisure membership card and a Young Scot card as well as providing access to other local services.

In 2021/22, a pilot was undertaken with Fife Council, to match travel passes for elderly and disabled customers with deceased customer records. Fife Council provided a total of 112,044 NEC records for matching against deceased person records. This resulted in 1,737 matches being identified for review by Fife Council (a return rate of 1.6 per cent).

Following Fife Council's review, all 1,737 cards (100 per cent) were cancelled on the NEC system as it was established that the customers had died. This means no further cards can be requested for these customers, and the card will be blocked should someone attempt to use it. No matches were identified where the customer was still alive.

Thirteen matches showed cause for concern as the NECs appeared to have been used after the death of the cardholder. Two of these cards were used for journeys to the value of almost £2,300 for one, and £240 for the other. The value of the journeys for the other 11 cards varied from £3.10 to £69.00.

Given the success of this pilot, consideration will be given as to how this data match can be expanded to other councils in Scotland and included in the main NFI exercise in the future. The pilot report is available on our website.

Case study

A new NFI pilot matching National Entitlement cards in Fife Council against deceased person records identified one card that had been fraudulently used for bus travel valued at almost £2,300 after the cardholder had died. Investigations are continuing into the individual(s) who used this card.

Applications for student awards

A pilot was undertaken with Student Awards Agency Scotland (SAAS) to help confirm residency and address details for students applying for awards for tuition fees, grants and bursaries. SAAS funds students from Scotland and as such it is interested in verifying the address of student applicants and flagging where students are potentially fraudulently misrepresenting their address to benefit from the more attractive financial support offered to Scottish students.

Student applications were matched against data held in the NFI system. An initial batch of 50 applications was processed which SAAS found very helpful in verifying and querying address details. One known fraud was put through the NFI pre-application screening service (AppCheck) to test the system. A match was highlighted, demonstrating the benefit AppCheck can bring in preventing fraud.

SAAS is now looking to expand the pilot to allow the upload of a large batch of applications to the NFI system quickly, securely and easily.

Social security benefits

A pilot is under way with Social Security Scotland to identify any instances where claimants received support but were not residing in Scotland, or where claimants appear to have claimed benefits more than once, eg from more than one Scottish address. Claimant data was matched to data already in the NFI system from across the UK. Data was submitted in March 2022, with matches released to Social Security Scotland in May 2022. Social Security Scotland is currently reviewing the matches.

Police Scotland's use of AppCheck

Police Scotland's Serious and Organised Crime Interventions Team deals with vetting applications, eg for landlord registration and pre-contract procurement check requests from public bodies such as councils and the NHS. These checks aim to prevent and detect fraud within public procurement and other public services such as landlord registration and taxi licencing. Police Scotland is undertaking a pilot to identify if data in the NFI data base can be used to help its vetting processes to prevent and detect fraud. Data has yet to be shared.

A match was highlighted, demonstrating the benefit AppCheck can bring in preventing fraud

Future developments

The 2022/23 NFI exercise is due to start in late summer 2022. Datasets have been reviewed and updated as necessary.

Audit Scotland continues to work with the Cabinet Office in developing new ways to prevent and detect fraud. This includes piloting new data matching opportunities.

The Scottish Parliament approved The Digital Government (Scottish Bodies) Regulations 2022 in March 2022. These Regulations name Audit Scotland under Regulation 3 - 'Scottish bodies for the disclosure of information in relation to fraud against the public sector'. This allows Audit Scotland to access HM Revenue & Customs income and savings data for Scottish residents for future NFI exercises. This will help identify outcomes where customers have received benefits and services above what they are entitled to.

Audit Scotland continues to work with the Scottish Government in promoting and enhancing participation in the NFI across Scotland.

The Scottish Parliament's Public Audit Committee (PAC) is considering the expansion of legislative powers around the NFI. This may include expanding the NFI to bodies in receipt of significant amounts of public funding that do not fall under the audit remit of the Auditor General for Scotland or the Accounts Commission.

The Cabinet Office recently consulted on extending its legal powers around the purposes for which data matching can be used. It is looking to potentially extend its legal powers in the following areas:

- to assist in the prevention and detection of crime other than fraud
- to assist in the apprehension and prosecution of offenders
- to assist in prevention and detection of errors and inaccuracies. The NFI data could be used to help public-sector bodies to ensure citizens get access to their full benefit entitlements. For example, a number of passported benefits across the welfare system entitle recipients to help with housing costs, free school meals, etc. A match could identify citizens entitled to additional help they are not claiming
- to assist in the recovery of debt owing to public bodies. Public bodies may need to trace individuals with outstanding overdue debt and with no arrangement to pay in place. In some instances, these individuals may be difficult to trace. The NFI data could be used to help identify where a debtor was living or working, for example.

The Cabinet Office is considering the responses and will publish a formal consultation response in due course.

Section 97 of the Criminal Justice and Licensing Act 2010 already permits Audit Scotland to use data matching for the first two purposes. We will monitor developments.

Appendix 1. Background to the NFI

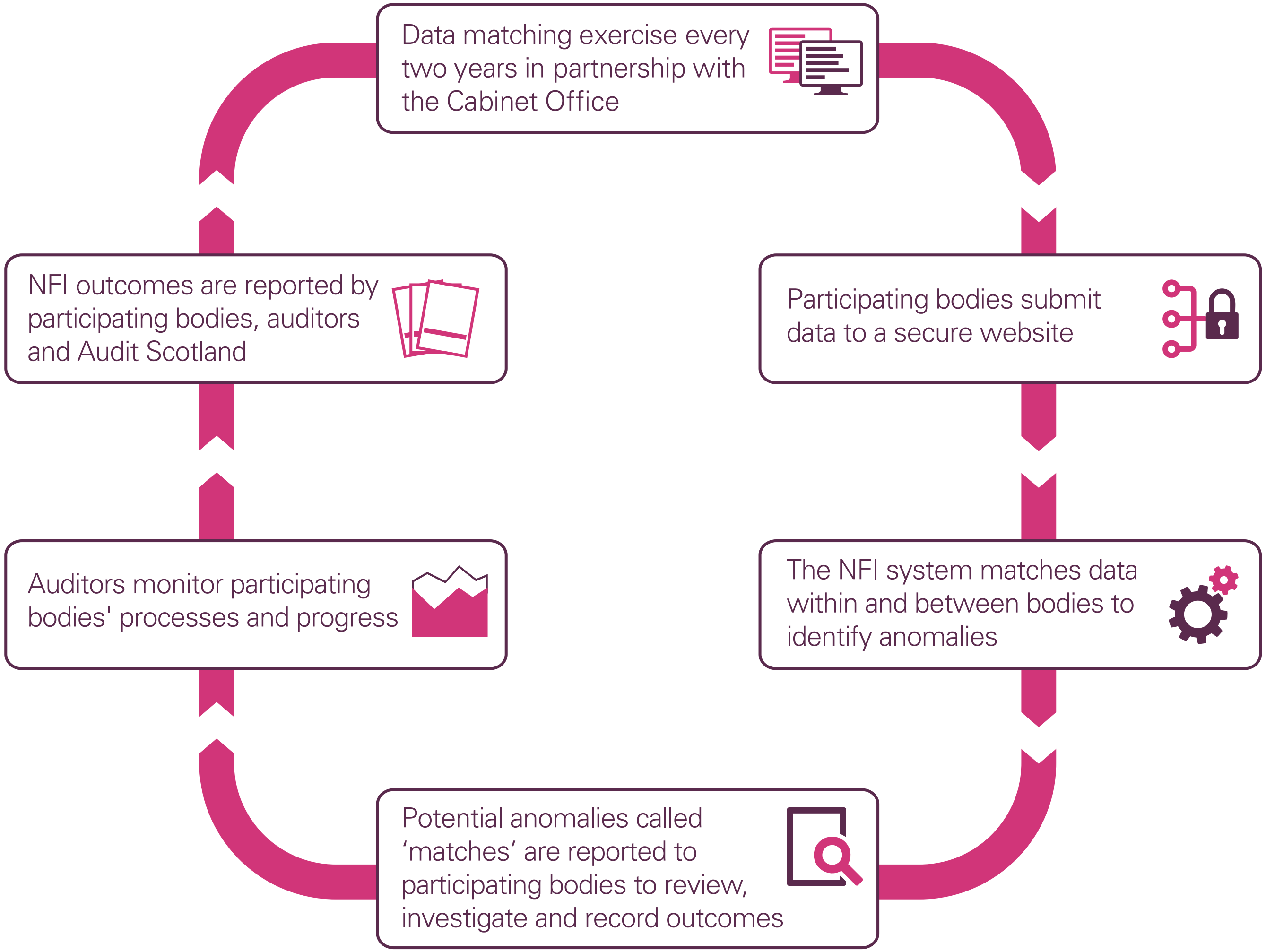
The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The Cabinet Office oversees it, and Audit Scotland leads the exercise in Scotland, working with a range of Scottish public bodies and external auditors.

The NFI uses data sharing and matching to help confirm that services are provided to the correct people. The NFI takes place every second year. 132 public-sector bodies in Scotland participated in the 2020/21 exercise including councils, NHS bodies, colleges and larger central government bodies such as the Scottish Government, Revenue Scotland and Transport Scotland. A full list of participants is available here.

The NFI enables public bodies to use computer data matching techniques to detect fraud and error.

We carry out the NFI under powers in The Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled, and data is handled in accordance with the law. The Audit Scotland Code of Data Matching Practice includes a summary of the key legislation and controls governing the NFI data matching exercise.

Although the main purpose of the NFI is to ensure funds and services are provided to the correct people, the review of NFI matches may also identify that a customer is entitled to additional services or payments, eg housing benefit matches may identify customers entitled to council tax discount or reduction.



Appendix 2. Costs and benefits of participating in the NFI

The Scottish Parliament provides funding to Audit Scotland to cover public-sector participants' NFI fees for the biennial data matching exercise.

Participating bodies incur costs following up matches and investigating. Participating bodies also incur costs for pilot work and additional services such as the AppCheck pre-application screening and the ReCheck[4] flexible data matching service.

Many bodies do not keep separate records for NFI costs as it is just one of many counter-fraud activities they are doing. Those that do have records were able to estimate that their costs ranged from £500 to £71,000. This compares favourably with the average outcome for each public body in Scotland of £113,000 for the 2020/21 NFI exercise.

Overall, the £14.9 million of outcomes from the 2020/21 NFI outweigh the costs.

4. ReCheck is a flexible data matching service that complements the NFI biennial national exercise. It allows NFI participants re-perform the existing NFI data matching at a time that suits them.

£8,416
Average reported cost of NFI (total of 25 bodies)

£204,500
Audit Scotland costs

	No. of bodies reported	Cost range
Councils	0	£0
Other local government bodies	2	£1,397 – £5,000
NHS bodies	7	£1,277 – £71,000
Central government bodies	11	£590 – £20,000
Colleges	5	£500 – £6,000

Appendix 3. Estimation bases

The figures used in this report for fraud, overpayments and errors include outcomes already delivered (actual amounts participants have recorded) and estimates. Estimates are included where it is reasonable to assume that incidents of fraud, overpayments and errors would have continued undetected without NFI data matching.

Details of estimate calculations used in the report are shown below.

Data match	Basis of calculation of estimated outcomes
Council tax single person discount	Annual value of the discount cancelled multiplied by two years.
Housing	£93,000 per property recovered, based on average four-year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies.
Housing benefit	Weekly benefit reduction multiplied by 21 weeks.
Pensions	Annual pension multiplied by the number of years until the pensioner would have reached the age of 85.
Payroll	£5,000 for each employee dismissed or resigns as a result of NFI matching, or £10,000 for each resignation or dismissal for employees who have no right to work in the UK.
Council tax reduction scheme	Weekly change in council tax discount multiplied by 21 weeks.
Housing waiting lists	£3,240 for each case based on the annual estimated cost of housing a family in temporary accommodation, the duration a fraud may continue undetected and the likelihood a waiting list applicant would be provided a property.
Blue badges	Number of badge holders confirmed as having died multiplied by £575 to reflect lost parking and congestion charge revenue.

The National Fraud Initiative in Scotland 2022

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NFI Self-Appraisal Checklist 2022

Part A: For those charged with governance	Yes/No/Partly	Is action required?	Who by and when?
Leadership, commitment and communication			
1. Are we aware of emerging fraud risks and taking appropriate preventative and detective action?	Yes We receive alerts surrounding emerging risks from various agencies / national groups, e.g. Police Scotland, National Anti-Fraud Network (NAFN), Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), Scottish Local Authorities Investigators Group (SLAIG), Audit Scotland and circulate them as appropriate to key members of staff in the Council for awareness / potential action. Staff in the Corporate Fraud Team actively participate in professional networks and groups. There is a Council Fraud Strategy & Response Plan and a Fraud Risk – Areas for Review Plan. Members of the Standards, Audit and Risk Committee have received induction training, which included Corporate Fraud. Relevant national reports, including those compiled by Audit Scotland, are reviewed and acted upon.	No	

2. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes Fife Council is committed to participating in the NFI exercises. These are exercises included as anti-fraud measures within the Strategy and Response Plan for the Prevention and Detection of Fraud and Corruption, agreed by Standards & Audit Committee in April 2018. Updates on NFI exercises, including outcomes, are reported to CET and Standards, Audit and Risk Committee. The Chief Executive, Executive Directors and Heads of Service are notified of the NFI exercise. Participation in NFI exercises is communicated to staff via Outlook Administrator's e-mail and Fife Council's website: National data matching exercise starts in October (sharepoint.com) National Fraud Initiative - NFI | Fife Council NFI Key Contacts are members of staff in the Corporate Fraud Team.	No	
3. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Yes As 2 above, NFI is included in our Strategy and Response Plan for the Prevention and Detection of Fraud and Corruption.	No	
4. Have we considered using the point of application data matching service offered by the NFI team (AppCheck), to enhance assurances over internal controls and improve our approach to risk management?	Not considered to date We do not currently utilise AppCheck but this will be considered for future use by the Service Manager, Audit & Risk Management.	Yes	Service Manager - Audit and Risk Management 31 Dec 22

5. Are NFI progress and outcomes reported regularly to senior management and elected/board members (e.g., the audit committee or equivalent)?	Yes As 2 above, outcomes and progress with NFI are reported to Standards, Audit & Risk Committee and CET. Any failure to make satisfactory progress with the NFI exercise would be reported to senior management. This has not arisen to date.	No	
6. Where we have not submitted data or used the matches returned to us (e.g. council tax single person discounts), are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	Yes The Council submits all mandatory data and uses the matches returned. However, there is one exception, Council Tax Single Person Discount (CTSPD). As previously reported, the Council does not participate in the matching part of this exercise although it does provide the required data. The Council utilises a third party, Datatank, to carry out a review of its CTSPD using data from a credit reference agency. Results from the Datatank exercise are reported to Standards, Audit and Risk Committee and CET at the same time as NFI reporting.	No	
7. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Yes The NFI Key Contacts report operationally to the Service Manager, Audit & Risk Management. Explanations for and actions arising from the outcomes are discussed with the Service Manager, Audit & Risk Management and are followed up where necessary.	No	

	The Council's approach to NFI is also subject to an annual review by External Audit.		
8. Do we review how frauds and errors arose and use this information to improve our internal controls?	Yes Explanations for and actions arising from the outcomes are reported to Standards & Audit Committee and CET, as at 2 above. Weaknesses in internal controls are also be discussed, with a view to making improvements, with the Services and the Service Manager, Audit & Risk Management. If we feel there is a fraud risk that needs to be investigated further, it will be included in "Fraud Risks – List of Areas for Review" or the audit plan.	No	
9. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (e.g. successful prosecutions)?	Yes Reports are published externally via the Standards, Audit and Risk Committee and internally via papers to CET.	No	