

Pensions Committee

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



Tuesday, 28th March, 2023 - 10.00 a.m.

AGENDA

Page Nos.

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST** – In terms of Section 5 of the Code of Conduct, members of the Committee are asked to declare any interest(s) in particular items on the agenda and the nature of the interest(s) at this stage.
3. **MINUTES -**
 - (a) minute of the meeting of the Pensions Committee of 13th December, 2022; and 4 – 7
 - (b) Fife Pension Board comments arising from the meeting on 13th December, 2022. 8 – 9
4. **FIFE PENSION BOARD - REVISED CONSTITUTION** – Report by the Executive Director – Finance and Corporate Services. 10 – 15
5. **FIFE PENSION FUND BUSINESS PLAN AND BUDGET 2023-24**– Report by the Head of Finance. 16 – 29
6. **PENSION ADMINISTRATION - PERFORMANCE MONITORING REPORT** – Report by the Head of Finance. 30 – 37
7. **ASSET POLICY GROUPS AND BENCHMARKS** – Report by the Head of Finance. 38 – 44
8. **FIFE PENSION FUND - STATEMENT OF RESPONSIBLE INVESTMENT PRINCIPLES** – Report by the Head of Finance. 45 – 57
9. **AZETS – ANNUAL AUDIT PLAN FIFE PENSION FUND 2022/23**– Report by the Head of Finance. 58 – 102
10. **UPDATE ON 2022/23 FIFE PENSION FUND INTERNAL AUDIT PLAN AND 2022/23 ISSUED AUDIT REPORTS** – Report by the Service Manager - Audit and Risk Management Services. 103 – 106
11. **RISK MANAGEMENT - QUARTERLY REVIEW** – Report by the Head of Finance. 107 – 126
12. **PENSIONS COMMITTEE WORK PLAN** - Report by the Head of Finance. 127 – 130

ITEMS/

ITEMS LIKELY TO BE CONSIDERED IN PRIVATE

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

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|------------|--|-----------|
| 13. | FIFE PENSION FUND - INVESTMENT UPDATE – Report by the Head of Finance. | 131 – 139 |
| 14. | ANNUAL REVIEW OF SHARED SERVICES ARRANGEMENT – Report by the Head of Finance. | 140 – 153 |

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

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21st March, 2023

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BLENDED MEETING NOTICE

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

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

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

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

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

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

Members joining remotely are reminded to mute microphones and switch cameras off when not speaking. This includes during any scheduled breaks or adjournments.

THE FIFE COUNCIL - PENSIONS COMMITTEE – REMOTE MEETING

13th December, 2022

10.00 a.m. – 11.46 a.m.

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

Fife Pension Board - Lynn Ballantyne-Wardlaw, Ian Dawson, Gail Dunn, Robert Graham, Ross Hugh and Colin Paterson.

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

ALSO IN ATTENDANCE: Robert Bilton, Actuary, Hymans Robertson LLP, Brian Howarth, Audit Director, Tim Bridle, Audit Manager, Lauryn Graham, Auditor, Audit Scotland, Albert Chen, Portfolio Manager and Bruce Miller, Chief Investment Officer, Lothian Pension Fund.

APOLOGIES FOR ABSENCE: Committee – Councillor Colin Davidson.

Fife Pension Board - Councillor Tom Adams and Vicki Wyse.

30. DECLARATIONS OF INTEREST

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

31. FIFE PENSION FUND ANNUAL REPORT AND AUDITED ACCOUNTS

The Committee considered a report by the Head of Finance providing the Audited Accounts for Fife Pension Fund for 2021-22 and the Annual Audit Report. A brief response to the External Auditor's report to Fife Council and the Controller of Audit was included in the report.

Decision

The Committee:-

(1) agreed to approve the Audited Accounts for signature; and noted the positive report by Audit Scotland, the Council's External Auditors and the management responses;

(2)/

- (2) extended thanks and appreciation to the Pensions and Investment Teams, Finance Service and other members of staff across Fife Council and Audit Scotland involved in compiling the Audited Accounts; and
- (3) acknowledged the significant approach to partnership working from Audit Scotland, across the six-year period as external auditors for Fife Council, and wished the officers from Audit Scotland well in their future endeavors.

32. FIFE PENSION FUND COMMUNICATION POLICY

The Committee considered a report by the Head of Finance providing an update on the Communication Policy for Fife Pension Fund. The document would replace the previous policy agreed by the Committee in reflecting the increased use of digital communications and blended workstyle adopted by the Team.

Decision

The Committee approved the revised Communication Policy.

33. FUNDING STRATEGY STATEMENT - UPATED

The Committee considered a joint report by the Head of Finance and the Actuary, Hymans Robertson, updating the Fund's current Funding Strategy Statement to reflect changes in regulations, with effect from 1st June, 2022.

Decision

The Committee agreed to adopt the revised Funding Strategy Statement.

Councillor Jonny Tepp left the meeting during consideration of the above item.

34. PENSION ADMINISTRATION - PERFORMANCE MONITORING REPORT

The Committee considered a report by the Head of Finance providing monitoring information on the performance of the Pensions Administration Team and updating on other activities undertaken by the Team over the quarter to 30th September, 2022.

Decision

The Committee noted:-

- (1) the level of quarterly performance relative to the target and to the same quarter of the previous year;
- (2) the revised format of the KPI information; and
- (3) the range of additional activities carried out by the team over the last quarter.

35./

35. POST AUDIT REVIEW (PAR) REPORT

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

Decision

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

36. NATIONAL FRAUD INITIATIVE (NFI) IN SCOTLAND

The Committee considered a report by the Service Manager, Audit and Risk Management Services providing Audit Scotland's national report on the 2020/21 NFI exercise and updating on local planning and preparations for the 2022/23 NFI exercise.

Decision

The Committee:-

- (1) noted Audit Scotland's national report, summarising the outcomes from the 2020/21 National Fraud Initiative (NFI) exercise, published August 2022 at Appendix A to the report, in particular page 10 of the national report, which related to Pensions;
- (2) noted the progress to date relating to the 2022/23 NFI exercise; and
- (3) noted the completed NFI Self-Appraisal Checklist, for those charged with governance, at Appendix B to the report.

The Committee agreed to resolve, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, as amended, to exclude the public and press from the meeting for the following 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.

37. PENSION FUND - INVESTMENT UPDATE

The Committee considered a report by the Head of Finance providing an overview of the Fund's investments at 30th September, 2022. A verbal update of manager monitoring activity and of investment strategy was provided at the meeting.

Decision

The Committee noted:-

- (1) that the Fund's strategic asset allocation and current allocations relative to target;
- (2)/

2022 PEC 17

- (2) the value of the Fund's assets on 30th September, 2022 after returning - 1.9% over the quarter; that the Fund was making steady progress towards its target allocations; and
 - (3) that longer term absolute returns were strong and relative returns were above both the asset and liability benchmarks.
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Fife Local Government Pension Board

Minute of the Fife LGPS Pension Board held on Tuesday 13th December 2022

Present: Robert Graham, Union Rep (Chair); Ross Hugh, Union Rep (Secretary); Ian Dawson, Union Rep; Gail Dun, Fife College Employer; Colin Paterson, Union Rep.

In attendance: Clare Scott (Independent Professional Observer (IPO))

Apologies for absence: Vicki Wyse, FSLT Employer; Cllr Tom Adams, Fife Council Employer; Cllr Lynn Ballantyne-Wardlaw, Fife Council Employer.

1. DECLARATIONS OF INTERESTS – None declared.

2. LGPS Committee Decisions - the Board agreed that in general there were no decisions made at the Committee that had resulted in any requirement for the Board to request a subsequent review.

3. FIFE PENSION FUND ANNUAL AUDIT REPORT AND AUDITED ACCOUNTS

The Board was happy on what was discussed, papers received, and explanations given.

4.FIFE PENSION COMMUNICATION POLICY

CP- Board was happy with the question asked by the Convener regarding communications between members of the scheme and the scheme administration. Concern/query was number of members who do not have active email or lapsed along with those who have requested paper copies of pension statements, issued annually.

Following up, The Board would request to know how many paper copies would be sent out to members and how many people are currently signed up to the online Pension Portal to date.

5. FUNDING STRATEGY STATEMENT - UPDATED

Admitted body exit arrangements - The Board request to see what documentation that would be sent to Employer/admitted body from the administration where a request to exit the Pension Fund was being considered or progressed.

6. PENSION ADMINISTRATION – PERFORMANCE MONITORING REPORT

CS- mentioned there more information in the pipeline to follow

RG – Request to clarify what was Essential and Desirable.

CS – was going to speak to Laura from the Pension Fund at their next meeting (in the afternoon).

7. POST AUDIT REPORT REVIEW

The Board was happy on what was discussed, explanations given and again noted the work taken by all concerned to complete this process, which was acknowledged positively.

8. NATIONAL FRAUD INITIATIVE (NFI) IN SCOTLAND

Noted process in which data was shared and subsequently the Board was happy that arrangements were in place and actively working to reduce the risk of fraud.

9. PENSION FUND ACTUARIAL VALAUATION

Discussions were held on when this is reviewed and CS explained there will be an analysis in March 2024, and we should get draft results in Autumn 2023.

10. AOB

Board Constitution - The Board believed the possibility of admin support for the Board should be explored as part of the revised Board Constitution. This would be followed up with CS, RG and the administration. Discussion and agreement would be made by Board and reported back to Committee. Expected timescale January/February for March meeting cycle all being well.

Training - CP- commented the importance of committee members completing the necessary training to exercise their due diligence re competent. Meetings being quorate is important but equally so is the competence of those present to exercise informed decision making underpinned by appropriate training.

Committee Meeting - CS – Noted that the next Committee Meeting would be a blended meeting and she would be attending in person.

Meeting Closed

28th March, 2023
Agenda Item No. 4

Fife Pension Board – Revised Constitution

Report by: Eileen Rowand, Executive Director (Finance and Corporate Services)

Wards Affected: All

Purpose

To approve revisions to the Pension Board Constitution.

Recommendation(s)

Members are asked to approve the Pension Board Constitution as set out at Appendix 1, subject to any changes in regulations.

Resource Implications

The ongoing costs of the Pension Board will be met from the Pension Fund.

Legal & Risk Implications

The background legislation to the creation of the Pension Board is set out in the Public Service Pensions Act 2013. Subsequent regulations were made and consist of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015. The Council is obliged, to ensure that appropriate governance arrangements are in place.

Impact Assessment

A formal impact assessment is not required as the creation of the Board is a requirement of Government legislation.

Consultation

The Pension Board representatives have been consulted and are in agreement with the proposed changes to the Constitution.

1.0 Background

- 1.1 The Pension Board's Constitution was agreed by the Pensions Sub-Committee in November 2014 and was revised in 2017 following a merger between UCATT and UNITE to provide that a fourth Trade Union member be nominated by the Joint Trade Unions. The Constitution is kept under regular review and any substantive changes must be approved at a meeting of the Pensions Committee.
- 1.2 The main changes include:-
- Fife Council providing administrative support to facilitate Pension Board meetings;
 - Clarification on conflicts of Interest, substitutes and training requirements;
 - The quorum for a meeting shall be 4, comprising a minimum of 2 employer representatives and 2 member representatives; and
 - The Pension Board will produce an annual report to be included in the Fund's annual report.

2.0 Conclusions

- 2.1 The Committee is asked to approve the Pension Board Constitution.

List of Appendices

1. Appendix 1 -Proposed amended Pension Board Constitution

Report Contact

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Scottish Local Government Pension Scheme – Fife Pension Board

1.0 Introduction

- 1.1 Each Local Government Pension Scheme Manager in Scotland is required to establish a Pension Board separate from the [Pensions Committee](#) that acts as the Scheme Manager.
- 1.2 The Fife Pension Board (“the Pension Board”) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

2.0 Objectives

- 2.1 Under the terms of the Public Service Pensions Act 2013 and associated legislation, Fife Council is designated as a “Scheme Manager”.
- 2.2 The statutory role of the Pension Board is to assist the Scheme Manager in matters as prescribed in [Section 8 of the Local Government Pension Scheme \(Governance\) \(Scotland\) Regulations 2015](#).

3.0 Membership

- 3.1 The Pension Board will comprise an equal number of representatives nominated by scheme employers and relevant trade unions, drawn from councils and scheduled or admitted bodies in membership of the fund. Board representatives will be appointed by the Pensions Committee. Pension Board representatives must not also participate in or act as members of the Committee. Local Authority employer representatives will normally be Elected Members serving as part of the Council.
- 3.2 No person may be appointed to the Pension Board that has a conflict of interest. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person’s exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the Board is established. The Scheme Manager must on appointment and thereafter annually satisfy themselves that none of the members of the Pension Board has a conflict of interest.
- 3.3 The Pension Board is made up of 8 representatives; 4 employer and 4 member (trades unions).

Employer

Fife Council	2
Scheduled bodies	1
Admitted bodies	1

Member (Trades Unions)

GMB	1
UNISON	2
Unite	1

- 3.4 The Pension Board representatives will serve for a period of four years and may be reappointed to serve further terms. Employer bodies and organisations retain the right to withdraw representatives and identify replacements on occasion. Appointing bodies can appoint a named substitute for their representative. Such substitutes must undertake the same training as set out in (6) below. Consequently, named substitutes should be invited to all training events.
- 3.5 Any newly appointed member of the Pension Board is asked to observe the Councillors Code of Conduct.
- 3.6 Advisors including the Independent Professional Observer (IPO) may attend meetings of the Pension Board in a non-voting capacity, at the discretion of the Chair.

4.0 Quorum

- 4.1 The quorum for a meeting shall be 4, comprising a minimum of 2 employer representatives and 2 member representatives.

5.0 Meetings

- 5.1 The Chair of the Pensions Board will be agreed by the Board and rotated on an annual basis between the trade union and employer sides of the Pension Board.
- 5.2 Pension Board meetings will be administered by Fife Council as the administering authority as agreed with the Joint Secretaries, one of whom is to be appointed by the scheme employers and the other by relevant trade unions. All reasonable administration costs shall be met by the fund.
- 5.3 The draft minute of the Pension Board meeting will be submitted to the Pension Board's members within 7 clear days of the date of the meeting. The Pension Board will provide the finalised minute of the meeting to the Head of Finance within fourteen clear days of the meeting.
- 5.4 The Pension Board should meet at least quarterly alongside the Pensions Committee and will also meet separately at least annually. A majority of either side may requisition a special meeting of the Pension Board in exceptional circumstances.
- 5.5 While the statutory roles and function of the Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.
- 5.6 The Pension Board may meet separately from the Committee.

6.0 Dispute Resolution

- 6.1 If the Pensions Committee and Pension Board cannot reach joint agreement on any decision reached by the Pensions Committee, the process for resolving any differences between the two bodies will be as below. (Whilst this process is undertaken the decision of the Committee is still competent).

- 6.2 In the first instance, if at least half of the members agree, the Pension Board can refer back to a decision of the Committee for further consideration, within 10 working days of the Committee, if any of the following grounds are met:-
- (a) there is evidence or data on which the Committee relied when making their decision which is considered to be unreliable or there is new evidence or data which the Committee did not access or was not aware of at the point of making the decision which is considered material to the decision taken.
 - (b) the decision of the Committee is arguably beyond the powers of the 2014 Regulations.
 - (c) the decision of the Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
 - (d) the decision is not in the interest of the continued financial viability of the Scheme or the relevant fund or is against the principles of proper and responsible administration of the Scheme or relevant fund.
- 6.3 If there is no agreement after the matter has been referred to the Committee, then the difference in view between the Pension Board and the Committee will be published in the form of a joint secretariat report on the fund website and included in the fund annual report.
- 6.4 The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter, which shall be shared with the Committee.

7.0 Training

- 7.1 The approved training policy for the Pensions Committee also applies to the Pensions Board and named substitutes ([Training Policy | Fife Pension Fund](#)). Members of the Pensions Board will be invited to attend the same training sessions as the Pension Committee. Non compliance of training will be reported to the body who nominated the representative.
- 7.3 The Scheme Manager will keep an updated list of documents which Pension Board members need to be conversant with to effectively carry out their role and make sure that both the list and the documents are accessible.

8.0 Access to Information

- 8.1 The Scheme Manager and Pension Board will together ensure that information is published about the activities of the board including:
- The full terms of reference for the Pension Board, can be found at Appendix 3 within the Council's List of [Committee](#) Powers;
 - The Pension Board appointment process;
 - Who each individual Pension Board member represents; and
 - Any specific roles and responsibilities of individual Pension Board members.

- 8.2 The minutes of the Pension Board will be published on the fund website. The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.
- 8.3 When the Pension Board and the Committee are meeting jointly, any matter which requires to be considered in private by the Committee under the terms of Schedule 7A of the Local Government (Scotland) Act 1973, and the members of the Pension Board shall observe the necessary requirements.
- 8.4 The Pension Board will produce an annual report to be included in the Fund's annual report.

March 2023

28th March 2023

Agenda Item No. 5

Fife Pension Fund Business Plan and Budget 2023-24

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

This report provides details of the Business Plan 2023-24 for Fife Pension Fund. The document is the first business plan for the fund and is intended as the basis for future plans.

Recommendation(s)

It is recommended that the Committee:-

1. Consider and comment on the Business Plan
2. Approve the Indicative Budget 2023-24 detailed in Appendix 2 of the Business Plan.
3. Approve the Business Plan 2023-24

Resource Implications

There are no direct resource implications identified at this stage. The Business Plan does include the Budget which for some items is based on previous years costs and trend analysis as some items are difficult to predict. In terms of the Administration element of the budget this is based on current staffing levels and can vary dependent on any change in staffing requirements.

Legal & Risk Implications

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

Impact Assessment

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

Consultation

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

1.0 Background

- 1.1 A recent Internal Audit report recommended the introduction of a Business Plan for the fund which is considered good practice. The Business Plan sets out the aims and objectives of the Fund as well as providing details of the resources required and the key activities involved in administration of the fund.

2.0 Business Plan

- 2.1 This is the first Business Plan that has been produced for the Fife Pension Fund. Producing a business plan is good practice and a way of communicating the day-to-day business of the Fund as well as setting out the proposed improvements and development work being undertaken.
- 2.2 The format of the Business Plan is based on the Pensions Regulator's sample business plan in the first instance.
- 2.3 It is intended that the Business Plan will inform the basis for various reports presented to the Committee throughout the year. This means that reports on the quarterly performance reporting, update on team activity and budget monitoring should be consistent with the approved business plan. Further, the annual report which forms part of the Annual Reports and Accounts provides a summary of the activities completed in the year and again should be consistent with and measured against the business plan.
- 2.4 As the first Business plan developed for the Fund it is intended that this will be used as a basis for developing future business plan and the process will evolve over time. It is intended that documents will become streamlined and that various aspects of reporting will be aligned to avoid duplication.
- 2.5 As the first iteration, commentary, and feedback from both the Committee and Board is welcome.

3.0 Conclusion

- 3.1 The Business Plan 2023-24 provides a consolidated statement of the development work and day-to-day business of the Pension Fund and the resources required to deliver that business. The strategy is an important part of the Fund's governance arrangements.

List of Appendices

Appendix 1 – Business Plan 2023-24

Background Papers

None

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Fife Pension Fund – Business Plan 2023-24

Introduction

Welcome to the first Business Plan prepared for Fife Pension Fund (The Fund), which is managed and administered by Fife Council. The Business Plan covers the period 2023-24 and will be formally reviewed and agreed on an annual basis.

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

The Business Plan sets out the business of the Fund and throughout the year the quarterly performance reporting, update on team performance and budget monitoring will all link to the approved plan. Finally, the annual report which forms part of the Annual Report and Accounts will provide a summary of activities completed in the year and again build on the business plan.

Fife Pension Fund

Fife Pension Fund is a £3.5bn Local Government Pension Scheme (LGPS), which provides death and retirement benefits for local government employees in Fife and employees of other scheduled and admitted bodies who are in the Fund.

Total fund membership, at 31 March 2022 was approximately **38,000** with around **15,500** active members from **20** scheme employers and around **22,500** retired, survivor and other members.

Objectives

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

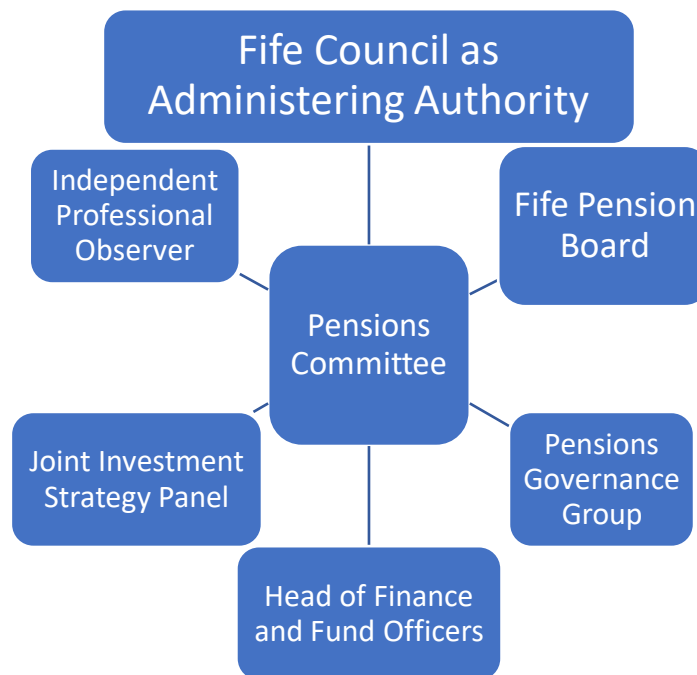
Overall, the **Fund's objectives** are to generate sufficient long terms returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.

Key strategies and policy documents which guide the management of the Fund are listed in Appendix 1 and can be found on the website, [Resources | Fife Pension Fund](#)

Governance and Compliance

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

How Fife Council carries out these functions is illustrated below:



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

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

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

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

- securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the Scheme and by the Pensions Regulator; and
- ensuring the effective and efficient governance and administration of the Fife Pension Fund.

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

The Pensions Governance Group (PGG) is an officers' group chaired by the Head of Finance and is responsible for, amongst other things, ensuring the roles and responsibilities are allocated and documented in line with the Fund's governance Code of Practice no 14 checklist.

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

Governance

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

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

Funding

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

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

Investment and Risk

The investment objectives of the Fund are to achieve a return on fund assets which is sufficient over the long term to meet the funding objectives.

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

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

Member Experience and Engagement

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

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

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

The Fund engages and communicates with members and employers by

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

Indicative Budget 2023-24

The indicative budget for 2023-24 is detailed at Appendix 2 of the plan.

The budgets has been set using previous years trends of expenditure which have been adjusted to reflect the estimated levels of pay awards and estimated levels of pension increases.

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

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

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

Workforce Planning

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

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

To this end workforce planning arrangements are being developed which will incorporate training and employee development needs, succession planning arrangements as well as promoting a positive culture, good leadership and support for employee wellbeing.

Development Activities

Several areas of work will need to be advanced during 2023-24, which is outlined as follows:

- **Procurement**
Fife will be participating in a joint procurement arrangement with our partner funds for renewing our Custody and Performance measurement arrangements. Details of the expected timelines have yet to be agreed.
- **Actuarial Valuation**
2023 is the actuarial valuation year which involves working with the actuary to agree the employer's contribution rates and funding strategy statement. This involves providing data to the actuary and a series of validations and checks to ensure this is accurate.
- **McCloud Judgement**
Work will continue during 2023 on the McCloud judgement with a view to the system being updated in advance of the underpin remedy being finalised.
- **Pensions Dashboards**
Pensions Dashboards are digital services such as apps or websites, which savers will be able to use to see their pension information one place. A saver will use the dashboard to search records of all pension schemes to confirm whether or not they are a member.

Dashboards aim to help members plan for their retirement.

As a public service scheme, the Fund will be required to connect with dashboards by **30 September 2024**.

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

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

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

Although, no commitment has been in Scotland to date, it is expected that given the increased focus on climate change, there will be similar requirements. To some extent this is recognised in the updated Statement of Responsible Investment Principles for the Fund, however, further research and work will be carried out in conjunction with our partners to agree reporting and disclosure requirements.

- **KPI review**

For the financial year 2023-24, KPI reporting will be expanded to include more indicators and more customer data including customer satisfaction survey. The process for capturing this data is being considered.

Procedures are in place to start collecting more information from the system to allow improved reporting.

- **Investment Strategy**

Continued implementation of the existing Investment Strategy including, and where appropriate, transition activity. Work will also commence on the updated Investment Strategy, linked into the Actuarial Valuation and the results generated.

- **Continuous Improvement of Processes**

Improvement work will carry on throughout the year

- Roll out of **i-connect**
- Roll out of **Member Self-Serve (MSS) to all pensioner members**
- **Transfer-in** criteria to be reviewed and considered by Committee
- **Transfer- out** process to be reviewed to ensure meeting regulations
- Decision making processes for **death grants** to be reviewed and clarified.
- Continued Review of **Governance Documentation**

Key Activities Planner

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

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

2023- 24	Quarter 1 (Apr to June)	Quarter 2 (July to Sept)	Quarter 3 (Oct to Dec)	Quarter 4 (Jan – March)
Actuarial	IAS19/FRS102 reports for year end processes Triennial Valuation – strategy modelling Triennial Valuation – Data submissions and validations	Triennial Valuation – individual employer calcs Prepare Funding Strategy Statement Triennial Valuation – Data submissions and validations	Triennial Valuation – issue employer results for consultation Employer Forum Triennial Valuation – clean data sign off	Triennial Valuation – agree results and close consultation Triennial Valuation – confirm employer rates
Administration	Annual Pension Increase Year-end processing HMRC reporting and returns McCloud Judgement Pension Dashboard preparation Roll out of MSS to pensioner members. Transfer in process criteria Transfer out process improvements and training Death Grant decision making	Issue Annual Benefit Statements Year End Processing HMRC reporting and returns McCloud Judgement Pension Dashboard preparation Roll out of MSS to pensioner members Transfer in process criteria Transfer out process improvements and training	Annual Allowance deadline HMRC reporting and returns McCloud Judgement Pension Dashboard preparation Roll out of MSS to pensioner members Transfer out process improvements and training	HMRC reporting and returns Pension Dashboard Preparation Roll out of MSS to pensioner members

	process reviewed			
Audit	Update on Internal Annual Audit plan Internal Annual Audit Report	External Audit process and report		External Audit Plan
Governance	Quarterly Risk Review Annual Governance Statement Annual Report and Accounts Statement of Investment Principles Statement of Responsible Investment Principles	Quarterly Risk Review Annual Review of Administration Strategy Review of Governance Documentation	Quarterly Risk Review Annual Review of Communications Policy	Quarterly Risk Review Preparation of Indicative budget Preparation of Business Plan
Skills and Training	Committee and Board Training Prepare details of training attended	Update Training Plan Committee and Board training	Committee and Board training	Committee and Board training
Investment	Joint Investment Strategy Panel Qtrly Fund Managers meetings Transition Activity	Joint Investment Strategy Panel Qtrly Fund Managers meetings Transition Activity	Joint Investment Strategy Panel Qtrly Fund Managers meetings Transition Activity	Joint Investment Strategy Panel Qtrly Fund Managers meetings Transition Activity

	Private Markets investment activity	TCFD Research Private Markets Investment Activity CEM Benchmarking	Investment Strategy TCFD Research Private Market Investment Activity CEM Benchmarking	Investment Strategy TCFD Research Private Market Investment Activity
Pensions Committee Meetings	23 June 2023 30 June 2023	14 Sept 2023 28 Sept 2023	30 Oct 2023 14 Dec 2023	01 Feb 2024 28 March 2024

Here is the plan for 2024-25 which is less detailed at this stage.

2024-25	Quarter 1 (April to June)	Quarter 2 (July to Sept)	Quarter 3 (Oct to Dec)	Quarter 4 (Jan to Feb)
Actuarial	IAS19/FRS102 reports for year-end processes			
Administration	Annual Pension Increase HMRC reporting and returns Year End Processing Pension Dashboard Preparation	Issue Annual Benefit Statements HMRC Reporting and returns Year End Processing Pension Dashboards Preparation	HMRC reporting and returns Annual Allowance deadline	HMRC reporting and returns
Audit	Update on Internal Annual Audit plan Internal Annual Audit Report	External Audit process and report		
Governance	Quarterly Risk Review Annual Governance Statement	Quarterly Risk Review Annual Review of Administration Strategy	Quarterly Risk Review Annual Review of Communications Policy	Quarterly Risk Review Preparation of Indicative budget

	Annual Report and Accounts Statement of Investment Principles Statement of Responsible Investment Principles			Preparation of Business Plan
Skills and Training	Committee and Board training	Committee and Board training	Committee and Board training	Committee and Board training
Investment	Joint Investment Strategy Panel Qtrly Fund Managers meetings Transition Activity Investment Strategy Private Markets investment activity	Joint Investment Strategy Panel Qtrly Fund Managers meetings Investment Strategy Private Markets investment activity CEM Benchmarking	Joint Investment Strategy Panel Qtrly Fund Managers meetings Private Market investment activity CEM Benchmarking	Joint Investment Strategy Panel Qtrly Fund Managers meetings Private Market investment activity
Pensions Committee Meetings	30 May 2024 28 June 2024	TBC	TBC	TBC

Conclusions

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

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

Key Governance Documentation



Fife Pension Fund Indicative Budget 2023-24

	2023-24 Budget
	£m
Dealings with members, employers and others directly involved in the fund	
Contributions Received	(122.290)
Additional Contributions from Employers	(2.810)
Transfers from Other Schemes	(2.660)
	(127.760)
Pension Payments	84.500
Lump Sum Benefits	20.340
Refund of Contributions	0.230
State Premium Schemes	0.010
Transfers to Other Schemes	4.460
	109.540
Net (additions)/withdrawals from dealings with members	(18.220)
Administrative Costs	1.850
Oversight and Governance Costs	0.670
Investment Management Expenses:-	
Management Fees	8.650
Performance Related Fees	0.880
Custody Fees	0.110
Transaction Costs	4.340
Net (additions)/withdrawals including fund management expenses from dealing with members	(1.720)
Returns on investments	
Investment Income	(26.090)
Taxes on income	0.230
Profit and losses on disposal of investments and changes in the market value of investments	(127.100)
Net return on investments	(152.960)
Net (increase)/decrease in the net assets available for benefits during the year	(154.680)
Opening net assets of the scheme at 1 April 2022	(3,250.255)
Net increase/(decrease) in the Fund	(154.680)
Closing net assets of the scheme at 31 March 2023	(3,404.935)

28th March 2023

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 31st December 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) 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 changes in performance as well as 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 the Pensions administration team, the management team and to Committee.
- 1.2 The report is designed to provide formal reporting of administration performance to the administration team, the management team and the Committee.

2.0 Key Performance Indicators

2.1 KPI 1 - Key Processes - Quarter 3

- 2.1.1 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.
- 2.1.2 KPI information for the quarter 1 October 2022 to 31 December 2022, and a comparator for the for the same quarter last year are detailed in Appendix A. An explanation for the variance from the target is provided below.
- 2.1.3 Performance for the third quarter has been on or above target for 3 of the 7 key processes reported. Answering queries raised through correspondence, processing new members and retirement calculations continues to be on target and performance is consistent with this quarter last year. No redundancy estimate requests were made in the quarter.
- 2.1.4 Refunds have dropped below target in this quarter. This has been due to internal promotions reducing capacity in our support assistant team. Recruitment has been undertaken and the positions filled. Although below target the number of outstanding cases has reduced this quarter.
- 2.1.5 Performance on dealing with Transfers In is well below the target. Team members were required to concentrate their efforts elsewhere on processes such as Death Benefits and new pensions which has resulted in reduced levels of performance. . Training on the Transfers-in process is being rolled out across the team to increase the level of resilience and resources available to deal with the process and eliminate single points of failure.
- 2.1.6 Performance on Transfer In process has been below target for some time, therefore research has been undertaken on the conditions adopted by other Funds. This has highlighted that most other Scottish funds only permit transfer of pension rights from public sector schemes.
- 2.1.7 In contrast Fife permits transfers from occupational schemes and personal pension plans and in the main the actual transfer amounts received for these types of schemes are low.
- 2.1.8 That said, there is a significant administration burden on both the member and the Team, therefore it is proposed we review this arrangement and bring forward a report to the September Committee to consider revised arrangements.
- 2.1.9 Until any revised arrangements are in place, a revised target is required which reflects the longer process being followed.

2.1.10 The performance of processing ill health retireals remains below target. As previously reported, the process for dealing with ill health retirements is complex and often depends on timely 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 unrealistic and as reported previously it is unlikely the target will be met. A revised target is being developed and the process for capturing this data from Altair is being tested.

2.2 KPI 2 - Total Days Elapsed

2.2.1 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.

2.2.2 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.

2.3 KPI 3 – Casework Ongoing

2.3.1 This table provides a breakdown of the total caseload for each of the 7 key processes over an annual rolling year. The results shown are consistent with the other KPIs.

2.3.2 Outstanding cases for processes for new members, refunds, correspondence, and ill-health estimates have improved since last quarter. There is approximately the same level of retireals and transfers-in outstanding.

3.0 Administration Team Activity

3.1 In addition to the key processes being carried out the team also continued with further activities as follows:

3.2 Business as Usual

3.2.1 In the quarter October to December, the team completed the outstanding queries from the Annual Allowance process, thereby ensuring Altair records were updated with all information required to produce and provide the annual Pension Savings statements to those members who exceeded the £40,000 Annual Allowance. This is a very complex area requiring manual checks on calculations.

3.2.2 Work is continuing to produce new, and update existing, procedures for administration tasks. The procedures are catalogued and saved in our shared folder in the Microsoft Teams site for access by all team members.

3.2.3 Work has been on-going in this quarter to carry out and complete the recruitment process for new staff. Following a successful recruitment process, 4 vacancies have been filled taking the team to full staffing complement.

3.3 Staff Training and development

3.3.1 In-house training for recently promoted team members is continuing.

3.3.2 The Team created and delivered a comprehensive induction process for the new team members. A formalised training plan has also been developed and is currently being implemented.

3.4 Employers

3.4.1 Working closely with colleagues from Fife Council's payroll and Business Technology Solutions, work is on-going to source and adapt the relevant payroll information from Fife Council and all the Fife Council Bureau payrolls for the McCloud project. Before any Altair update can be done, work needs to be carried out to match payroll records (pre and post Oracle payroll records) with Altair records. 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 matching the data given the change of payroll systems during the period involved. The variety of working patterns and

multiple positions adds to the complexity of the data collation. This has run over the expected timescales.

- 3.4.2 Alongside the collation of the data, the team are proactively developing and testing spreadsheet tools to assist Fife Council's payroll team with the collation of the data into the prescribed format for processing and upload to Altair to allow calculations to be completed. For all other employers, except for two, the data has been received and work has now started to upload the data to Altair to create the McCloud data views required before the final rectification.
- 3.4.3 We are still awaiting the notification from the Scottish Public Pensions Agency (SPPA) that the legislation setting out the underpin remedy is finalised.

3.5 **Review of KPIs**

- 3.5.1 The first phase of the review is complete and we have taken the following steps:
- Reviewed KPIs prepared by other Scottish Funds to determine the range of KPIs reported and timescales of each KPI taking account of statutory time limits.
 - Referred to our Administration Strategy to ensure our KPIs reflect that strategy.
 - Liaised with our internal auditors following their audit report on this area of work.
 - Started gathering performance information to allow us to report on customer contacts such as telephone answering and call times.
- 3.5.2 Undertaking these actions has allowed us to determine three additional processes we wish to report as KPIs, for 2023-24. These processes are Transfers-Out, Deaths and Divorce cases. The review also allowed us to determine revised targets for those areas which currently are unrealistic. On this basis, this will be reported to Committee for Quarter 1 results (April to June) in September 2023.
- 3.5.3 Further, including more customer related performance data enhances the reporting and gives a sense of scale of the queries being addressed.
- 3.5.4 During 2023-24 we intend to undertake a customer satisfaction survey as well as a staff satisfaction survey to produce a Balanced Scorecard of results. The approach to this is currently being considered.
- 3.5.5 The second phase of the review will be reporting this data which will be from Quarter 1 onwards.

3.6 **Development Activity**

- 3.6.1 A Business Plan has been developed for the Fund, which is subject to a separate report on this agenda. It includes details of the development activities the team will take forward throughout the year. Progress on these developments will be reported to Committee on a regular basis and included in this section of this report.
- 3.6.2 The Team is committed to the continuous improvement of the processes and procedures in place.
- 3.6.3 In doing so work has commenced in respect of the Transfer Out process, ensuring compliance with the relevant regulations. This involves carrying out a series of checks and gathering information to ensure the receiving scheme is legitimate. In addition, improvements are being made to the decision-making process for awarding Death Grant.

- 3.6.4 Initial preparation work and dialogue has started in respect of Pensions Dashboards which are to be introduced from October 2024.
- 3.6.5 Pensions Dashboards are digital services such as apps or websites, which savers will be able to use to see their pension information one place. A saver will use the dashboard to search records of all pension schemes. Dashboards aim to help members plan for their retirement.
- 3.6.6 As a public service scheme, the Fund will be required to connect with dashboards by 30 September 2024.

4.0 Conclusions

- 4.1 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 December 2022.
- 4.2 Other activities continue to be advanced by the Team including a review of processes and training.

List of Appendices

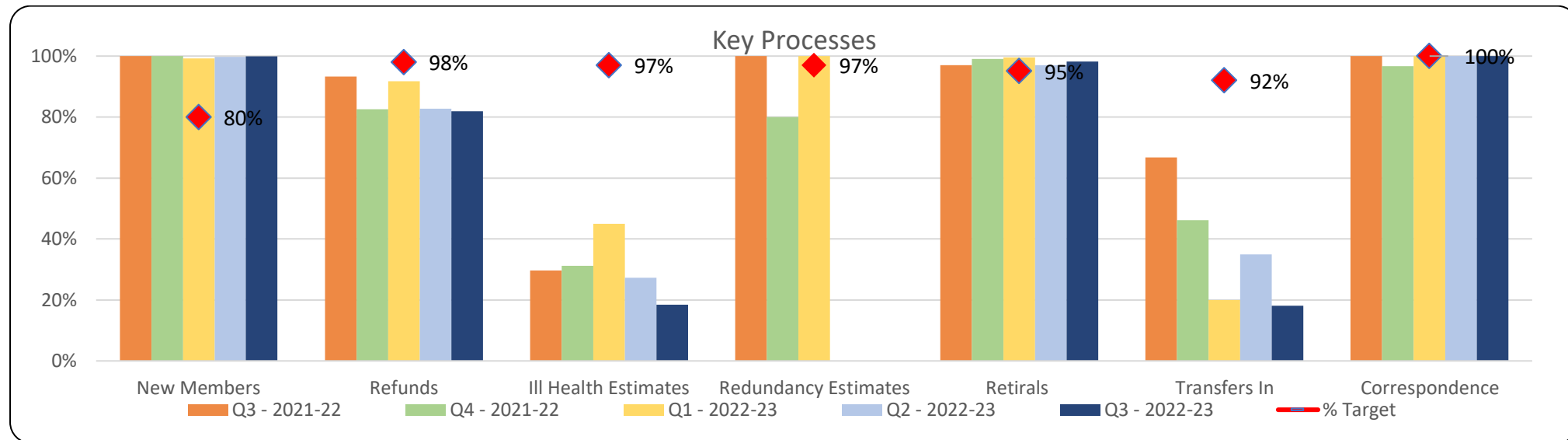
Appendix A – Pension Team Performance Indicators

Report Contact

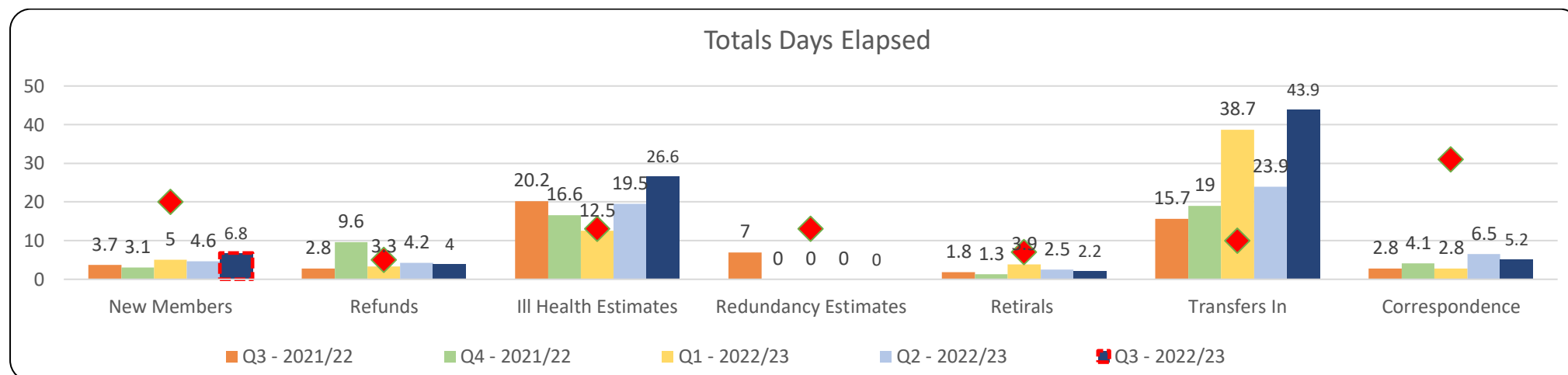
John Mackie
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Fife House,
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Fife, KY7 5LT

Email – john.mackie@fife.gov.uk

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				Q3 2022/23			
Key Process	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding	Brought Forward	Received	Completed	Outstanding
New Members	3	691	691	3	3	517	519	1	1	1081	970	112	112	763	796	79	79	664	720	23
Refunds	85	192	233	44	44	187	186	45	45	190	203	32	32	339	256	115	115	283	368	30
Ill Health Estimates	14	18	27	5	5	17	18	4	4	24	21	7	7	35	23	19	19	22	28	13
Redundancy Estimates	10	1	11	0	0	5	5	0	0	2	2	0	0	0	0	0	0	1	1	0
Retirals	150	215	190	175	175	241	220	196	196	232	212	216	216	199	196	219	219	218	175	262
Transfers In	22	20	9	33	33	22	18	37	37	18	17	38	38	15	25	28	28	12	12	28
Correspondence	2	26	25	3	3	34	36	1	1	20	20	1	1	28	24	5	5	14	18	1

(Brought Forward + Received – Completed) = Outstanding

28th March 2023

Agenda Item No. 7

Asset Policy Groups and Benchmarks

Report by: Elaine Muir, Head of Finance

Wards Affected: ALL

Purpose

The purpose of this report is to provide information on the strategic benchmarks used and make recommendations for revised performance measures that are more closely related to the objectives of the funds and the implementation approach. The topic of strategic benchmarks has been considered by the Joint Investment Strategy Panel and this paper takes account of the recommendations made.

Recommendation(s)

It is recommended that the Committee approve:

1. The introduction of a weighted average policy group benchmark as the strategic benchmark consistent with the policy group structure and investment strategy;
2. The use of a risk-adjusted benchmark to measure Equities (MSCI ACWI 0.9x);
3. The use of a risk adjusted benchmark for the Real Assets Policy Group (MSCI ACWI 0.7x);
4. The revision of benchmarks for non-gilt debt and LDI Investment; and
5. The amendment of the performance reporting and Fund hierarchy information held by Northern Trust to reflect the Policy Group structure.

Resource Implications

Amending the reporting hierarchy will result in a cost in doing so. The extent of the cost is dependent on whether the hierarchy is amended retrospectively or for future reporting and cost estimates have been requested for both.

Legal & Risk Implications

The adoption of policy group benchmarks will facilitate more appropriate measurement of performance and assessment of risk relative to these policy group benchmarks.

Impact Assessment

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

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

The independent advisers and JISP advisers were consulted in the preparation of this report.

1.0 Background

- 1.1 The Pensions Committee is responsible for setting investment strategy and monitoring its implementation, which is undertaken by officers based on advice from the Joint Investment Strategy Panel (JISP) which includes external independent advisers.
- 1.2 The Pensions Committee require useful information that captures the value of investment decisions to help assess progress towards objectives. The strategic benchmark and the funds' returns compared with that benchmark along with relevant risk analysis should provide insights to support their role in administering the funds, albeit interpreting such data is not straightforward.
- 1.3 Care must be taken when comparing actual returns with benchmark returns. Returns data can be subject to misinterpretation, particularly over the short term (less than 3 years). Secondly, benchmarks are typically used as a comparator to what an investor could have achieved (if invested in the underlying benchmark), and in fact, some benchmarks are not investible.
- 1.4 In considering reporting, the JISP have discussed the challenges that the Pension Committee and others face when interpreting performance data.
- 1.5 JISP Advisers were asked to address two issues:
 - Whether the funds have a suitable benchmark given significant deviation in returns
 - Whether Fife should report investment risk / return at the policy group level
- 1.6 This paper will set out the conclusions and recommendations as reported to the JISP in December 2022 and subsequent discussions.

2.0 Asset Policy Groups

- 2.1 Before setting out the findings of the advisers, this section of the report will provide some background to the Asset Policy Groups.
- 2.2 As part of the review of the Investment Strategy in 2018, Fife Pension Fund introduced the concept of Policy Groups. The policy groups are consistent with the other funds in the collaboration arrangement and were designed to facilitate joint working and greater commonality in terms of reporting in the JISP. These groups condense the vast array of investment choices into a manageable number of investment groups.

The agreed policy groups are set out in the table below:

Policy Group	Objective	Permitted Assets
Equities	The principal driver of the Fund's growth and in the long term, expected to outperform liabilities, albeit with periods of volatility	Listed Equities, private equity, forward currency contract, equity futures,
Other Real Assets	Real returns with an income stream, in some way, linked to inflation. Likely to deliver diversification from Equities	Property, infrastructure, timberlands, agriculture, commodities
Non-Gilt Debt	Assets offering strategic funding level protection	Investment grade bonds, high bond yields, loans, private credit, emerging market debt
LDI Investment	Assets offering strategic funding level protection and/or those delivering a superior yield to that available on gilts (where returns may have a positive correlation to bonds)	Index-linked gilts, nominal gilts, overseas sovereign bonds, forward currency contracts, gilts/bonds futures
Cash	Liquidity function avoiding (mostly) credit duration and duration risk premia.	UK Treasury assets, overseas Treasury assets, local authority loans, bank/building society deposits (all short term).

2.3 The Pensions Committee has approved the strategic asset allocation to the various policy groups as follows:

Policy Group	Current Strategy	Permitted Range
Equities	50%	40% - 60%
Real Assets	20%	10% - 30%
Non-Gilt Debt	15%	5%- 25%
LDI Investment	15%	5% - 25%
Cash	0%	0% - 15%
Total	100%	

- 2.4 Investment performance reporting is currently undertaken at mandate level. Returns are presented at fund level and policy group level, but there is no current measures of performance at the overall policy group level.

3.0 Benchmarks

- 3.1 Indices and benchmarks play an important role in describing the performance of markets and of investment strategies. It is essential to understand their composition and how closely they align with underlying strategies.
- 3.2 The return assumptions modelled during the Investment Strategy review are the basis for the strategic benchmark, but unfortunately, there is no perfect benchmark for the assets in each policy group. This is particularly the case for private market investments, such as those in the Real Asset policy group.
- 3.3 A strategic benchmark is an imperfect way to assess whether the fund is on course to achieve its objectives. Faced with the situation that assets growth must exceed liability growth to fund pensions, there is an inherent mismatch between assets and liabilities.
- 3.4 Over time the 3 collaborative funds (Fife, Falkirk and Lothian) have worked together setting Investment Strategies, to take advantage of implementation synergies, however it has become obvious that the strategic benchmarks are inconsistent across the funds.
- 3.5 The JISP has considered reports on benchmarks at two recent meetings (June and December 2022).
- 3.6 In doing so it was noted that, all three funds have the same goal-based objective (to pay pensions as they fall due) and to achieve this objective, they project long term asset returns for major asset classes and create a diversified mix of assets that should deliver the required returns if the asset returns forecasts come to pass.
- 3.7 At its meeting in June 2022, the JISP proposed 3 principles to aid the assessment of performance and focus attention on the long- term objectives of the funds (which are all consistent) rather than matching or outperforming standard, market cap weighted benchmarks. These principles are as follows:
- **Principle 1:** *the three funds should construct a strategic benchmark in the same way* – It was recommended that Fife should introduce a weighted average policy group benchmark which would align with Lothian and Falkirk in due course.
 - **Principle 2:** *to the extent possible, benchmarks should be measurable, unambiguous, specified in advance, investible, appropriate, “owned” by stakeholders.*
 - **Principle 3:** *where an individual benchmark does not capture the universe of securities or investments, it is helpful to show a secondary benchmark or further analysis.*
- 3.8 Given the complexities of interpreting data, the JISP recommended that the Pensions Committee receive training on benchmarks including the construction and key characteristics of those adopted and associated risks, including the impact on investing behaviour. The training for Fife Pension Committee took place on 07th March 2023.
- 3.9 In order to adhere to the principles there are a number of the recommendations to be considered as follows:
- **Recommendation 1:** In recognition of the move to low-risk strategy that is aligned with partner funds, it is recommended that a (0.9x) risk adjusted MSCI

ACWI benchmark is introduced for the policy group. The rationale for this recommendation is that it is a better comparator for the funds' Equity policy group strategy than the existing benchmark. The ex-post risk and return data for Lothian's portfolios over some 10 years suggests that this is an appropriate benchmark.

- **Recommendation 2:** In recognition of the extreme volatility of the gilts plus benchmark relative to asset valuations, which mark to market slowly, it is recommended that a risk-based benchmark (0.7xMSCI ACWI) is introduced for the Real Assets policy group, with the current gilts plus benchmark retained as a secondary benchmark. It should be noted that short term returns are often irrelevant when the intended asset holding period is more than a decade. The incremental perspective of the secondary benchmark should provide a wider perspective of the invested assets, which are predominantly lower risk, private markets equity investments (infrastructure and property). The investment strategy reflects the expectation that these assets generate a premium return over gilts but are likely to generate a lower return than listed equities over the 20 year period modelled at the time of the strategy review.
- **Recommendation 3:** That revised benchmarks are introduced for Non-Gilt Debt and LDI investment, namely iBoxx £ IG credit +0.2% pa and FTSE Actuaries Gilts Index Linked Total Return > 15 year (FTRFILO), respectively.

4.0 Committee Reporting

- 4.1 Given that the Committee are responsible for setting the investment strategy and monitoring its implementation, the JISP advisers recommend that the Committee should focus on monitoring risk and return at both fund and policy group level to assess investment strategy and implementation success.
- 4.2 The fund is monitored and analysed at all levels: total fund, policy group and individual mandate.
- 4.3 Currently, Fife Pension Fund returns are presented at fund level and policy level, but "policy level" attribution is mandate level attribution with benchmark weights being legacy weights prior to the latest investment strategy review.
- 4.4 This is not consistent with the Investment Strategy. Therefore, the JISP considered a further recommendation:
 - **Recommendation 4:** that Fife instructs Northern Trust to amend its fund structure hierarchy in line with the policy groups in the investment strategy and reports the strategic benchmark as the weighted average return of the policy groups (rather than mandates).
- 4.5 Implementation of this recommendation will improve reporting to the Committee, enabling a better assessment of progress to achieving investment objectives.
- 4.6 Initial contact has been made with Northern Trust to establish the cost and timeline of carrying out this work.

5.0 Independent Advisers' View

- 5.1 The independent advisers advised that the recommended benchmark is appropriate for Fife and will also improve consistency and alignment across all three funds. The funds

each have the same objectives and similar strategies with consistent policy groups with similarities in composition.

- 5.2 To achieve this the advisers recommend that Fife makes changes to the benchmarks as follows:
- Introduce a weighted average return of the policy groups benchmark indices
 - The Equity policy group benchmark is risk adjusted to reflect the mix of mandates
 - The Real Assets policy group benchmark is changed to a risk adjusted equity benchmark, to reflect the approximate returns and risk expectations of the policy group, with the existing gilts plus 2.5% pa retained as a secondary benchmark.
- 5.3 In considering these recommendations, the advisers would point out that the real objective of the fund is paying pensions, not matching, or beating asset-related benchmarks.
- 5.4 Benchmarks should be viewed as reference points and an understanding of how they differ from invested assets and how reported performance figures relate to the growth in liability is equally important.

6.0 Fife Pension Fund

- 6.1 Implementing the recommendations will mean a significant change in the benchmarks currently reported for Fife. This is summarised in the following table:

Strategic Benchmark November 2022			
Policy Group	Allocation	Current Benchmarks (mandate level)	Proposed Benchmark (Strategic Policy Group level)
Equities	50%	20% FTSE all share, 12% MSCI World, 11% MSCI ACWI, 12% FTSE Global RAFI	MSCI ACWI (Dividends Reinvested Net of Withholding Tax) Risk Adjusted (0.9x)
Real Assets	20%	5% FTSE 7-day SONIA, 10% MSCI/AREF UK Quarterly All Property Fund Index	MSCI ACWI (Dividends Reinvested Net of Withholding Tax) Risk Adjusted (0.7x)
Non-Gilt Debt	15%	5% iBoxx Sterling Non-Gilts Index, 5% Composite Index	iBoxx £ IG credit +0.2% pa
LDI Investment	15%	5% FTSE Blended benchmark 5% Composite Index	FTSE Actuaries Gilts Index Linked TR> 15 year (FTRFILO)
Total Assets	100%	Weighted average return of the Mandate Benchmark Indices	Weighted average Return of the Strategic Policy Group Weights Benchmark Indices

- 6.2 The proposed secondary benchmark for Real Assets is FTSE Actuaries Gilts index linked TR> 15 yr (FTRFILO) + 2.5% pa. A secondary benchmark, acts as an additional comparator to compare the policy group return against.
- 6.3 Implementation of the revised benchmarks will require to be implemented in conjunction with Northern Trust, the fund Custodian.

7.0 Conclusions

- 7.1 In recognition of the complexities of benchmarks the JISP has considered two reports on strategic benchmarks.
- 7.2 The JISP agreed 3 principles that should be adopted when considering benchmarks to be used for fund performance.
- 7.3 A series of recommendations have been made which are intended to improve the performance reporting and align the reporting to the agreed Investment Strategy.
- 7.4 Reporting should be in line with the Policy Group structure.

List of Appendices

None

Background Papers

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

- Investment Strategy, Item 5, Superannuation Fund & Pensions Sub-Committee and Fife Pension Board 29 June 2021

Report Contact

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28th March 2023

Agenda Item No. 8

Fife Pension Fund

Statement of Responsible Investment Principles

Report by: Elaine Muir, Head of Finance

Wards Affected: ALL

Purpose

The purpose of this report is review and propose any necessary changes to the Statement of Responsible Investment Principles (SRIP). The SRIP has been in existence for approximately 18 months and is still in its infancy. The SRIP is attached at Appendix 1 and is intended to complement the Statement of Investment Principles (SIP) which is a statutory document.

Recommendation(s)

It is recommended that the Committee:-

1. Agree to update the Statement of Responsible Investment Principles (SRIP) with the changes highlighted in the SRIP .

Resource Implications

Continued adoption of this Statement of Responsible Investment Principles will involve resource which is likely to increase over time in order to implement some of the actions contained within it. Whilst the immediate pressure can be contained within existing resource, the volume of work involved will be kept under review as will the need for any additional resource or additional external input. Costs for any future additional resource requirement will be met from the Pension Fund.

Legal & Risk Implications

The development and implementation of the Fund's own Statement of Responsible Investment Principles is likely to be an important tool in countering any potential legal action against the fund for failing to adequately monitor ESG risks.

Impact Assessment

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

The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings. The Joint Investment Strategy Panel have also been consulted in the preparation of the initial document.

1 Background

- 1.1 Responsible Investment (RI) has become increasingly important to society over the last decade or so. While the Fund's Statement of Investment Principles (SIP) explains its approach to RI in broad terms, there is good reason to expand on those overarching principles in view of the increase in public interest and the growing trend to increase disclosure requirements in this area. The SRIP enhances transparency in this regard.
- 1.2 The policy document in Appendix 1 was approved around 18 months ago and provides a more detailed framework explaining the Fund's commitment and approach to RI and how the fund will work directly and in collaboration to deliver on its RI aspirations.
- 1.3 The SRIP is not currently a statutory document, but there is a possibility it will become mandatory in the future.
- 1.4 The SRIP has been reviewed and updated to reflect an enhanced approach to discussions with managers, as well as, recognising the Taskforce for Climate related Financial Disclosures (TCFD) and the future reporting requirements. All proposed changes to the SRIP have been highlighted yellow.

2 Statement of Responsible Investment Principles

- 2.1 The purpose of the SRIP is to document the Fund's approach to RI, with recognition of the risks and opportunities surrounding Climate Change. It contains ambitions and aspirations that should lead to better understanding and management of risk and so improve long term returns.
- 2.2 The main components of the policy statement include:
 - 2.2.1 Whilst recognising that the Fund is not a signatory to the Principles for Responsible Investment (PRI), it supports the six PRI principles.
 - 2.2.2 The Fund's commitment to reporting the carbon intensity of its holdings in future.
 - 2.2.3 The Fund's acknowledgement that the Paris Agreement of the United Nations Framework Convention on Climate Change is critical to halting anthropogenic climate change. This acknowledgement will drive engagement with the managements and Boards of non-Paris aligned equity holdings that are not aligned by 2025. Going forward, the clear intention is not to provide new capital to companies or projects that are incompatible with the aims of the Paris Agreement.
- 2.3 The document is designed to clarify the Fund's approach to RI for all stakeholders. Equally important, it will guide investment decision-making by stating what is acceptable and why. It should aid elected members in responding to the many queries they receive on RI-related matters.

3 Progress and Future Actions

- 3.1 Since approving the SRIP in June 2021, some progress has been made in the actions identified. This progress has centred around information sharing and gathering. Details of our voting and engagement statistics are posted on our website. More detailed information on Voting is shared with the Pension Board and Pension Committee. Introductory training was recently provided for Committee and Board members covering the service provided by our voting and engagement specialists and how they are key to some of the ambitions stated in the SRIP.
- 3.2 ESG is discussed at the quarterly performance meetings with fund managers and fund managers are requested to present their product-level TCFD reports.
- 3.3 A review of all signatories to the Principles for Responsible Investment (PRI) has been undertaken and confirmed all Fund Managers are signatories.
- 3.4 In line with the intent within the SRIP, no new financing or capital has been made available to companies or projects that are incompatible with aims of the Paris Agreement.
- 3.5 The Fund also took part in the annual Engagement Survey circulated by our engagement partner EOS at Federated Hermes (EOS). Views will be requested from Committee and Board in advance of the next survey to ensure all members have the opportunity to express their views and influence the work of EOS.
- 3.6 Fund officers are currently assessing how some of the ambitions are taken forward and also whether there are any gaps in terms of the ambitions contained within the SRIP. The Business Plan for the Fund identifies a key area of work, linked to the SRIP will include research on the reporting requirements for TCFD with a view to assessing and considering the reporting requirements in the Annual Report. TCFD requirement may lead to costs being incurred in the future, but as yet to be determined.
- 3.7 Another key consideration will be around how feasible it is to build climate risk into the valuation process. This will feature in discussions with the Fund actuary in the near future.
- 3.8 Finally, a recent report brought to the JISP highlighted that all resolutions are voted in line with EOS voting recommendations. However, on very rare occasions EOS alerts Lothian of potentially controversial or finely balanced issues. As LPF cannot vote on behalf of other funds it was agreed that a process be considered that would allow collaborative funds to consider these rare instances if they wished.

4 Conclusion

- 4.1 The report sets out the rationale for the introduction of the proposed SRIP which is attached at Appendix 1. The intention is that the SRIP will complement the Statement of Investment Principles which is a statutory document.

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Appendix 1 Fife Pension Fund – Statement of Responsible Investment Principles

Background Papers

¹<https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

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Statement of Responsible Investment Principles

1.0 Introduction

- 1.1 Fife Pension Fund (the Fund) believes that Responsible Investment (RI) supports the purpose of the Local Government Pension Scheme (LGPS) – the provision of retirement income for individuals. We believe that it should reduce the risk associated with the invested assets that the Fund owns to pay pensions when they are due.
- 1.2 This Statement of Responsible Investment Principles (SRIP) complements the Fund's broader Statement of Investment Principles (SIP), which is a statutory requirement codified in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. The SRIP explains the Fund's approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment (RI) and Stewardship perspective.
- 1.3 RI is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.
- 1.4 RI is not the same as Ethical Investment. Ethical investment is an investment approach determined by an investor's specific views, usually based on a set of personal values. These values can take precedence over financial considerations. Fife Pension Fund should not be considered as either an "Ethical" or an "Unethical" investor, but as a responsible steward of capital. The management of ESG issues is a question of identifying and mitigating material financial risks, not a question of ethics.
- 1.5 At Fife Pension Fund, Committee members in their roles as quasi-trustees, executive officers and investment managers are bound by the legal principle of fiduciary duty. Guidance on our fiduciary responsibilities has been provided by the Scottish Scheme Advisory Board (SAB), which has taken legal advice on the matter ([Fiduciary Duty Guidance | LGPSAB](#)). The SAB advises the Scottish Government ([the Responsible Authority for the Fund](#)) and Scottish LGPS Funds on policy issues. We review this guidance on an ongoing basis to assess it against any changes to the legal or regulatory framework, and still believe it to be relevant.
- 1.6 Our Pensions Committee (the Committee), comprising nine elected councillors, is responsible for fund oversight and policy setting. In carrying out its obligations, this group of quasi-trustees must take into consideration the views of its main stakeholders, members and employers.
- 1.7 Fife Council is the administering authority for the Fund, but the Fund is not owned by the Council. Pension fund assets, which are earmarked for pension payments over the life of the fund, are ringfenced from 'Council Money'. There are 20 employers and around 38,000 members, whose pension payments will be funded by these and further employer and member contributions.

- 1.8 At Fife, we are committed to acting as responsible investors by managing the risks associated with ESG factors. Much academic research supports the belief that successful engagement adds value to the investment process; and that divestment has no effect on company finance in the long term and can produce perverse incentives in the short term¹. Accordingly, we believe that as responsible owners we should engage with our investee companies and appointed managers, either directly or via their collaborative partners. Where material risks remain following engagement activity, fund managers ultimately retain the ability to divest.
- 1.9 In preparing this statement, the Committee has taken professional advice from the Joint Investment Strategy Panel (JISP), which includes external advisers and members of the Lothian internal investment team who are FCA authorised individuals.
- 1.10 The Fund gratefully acknowledges the assistance of officers from Lothian Pension Fund in compiling and advising on the SRIP.

2. Principles for Responsible Investment

- 2.1 The Principles for Responsible Investment (“PRI”) – previously the United Nations Principles for Responsible Investment – is an international network of asset owners and managers who are committed to the PRI’s six principles and thereby to working collaboratively towards best practice in the sphere of responsible investing.
- 2.2 Whilst Fife Pension Fund is not a signatory to the PRI, due to the resourcing implications for a fund the size of Fife, we will strive to act in accordance with the six principles with a view to contributing to the development of a more sustainable global financial system, as follows:

Principle 1

We’ll incorporate ESG issues into investment analysis and decision-making processes.

- 2.3 The implementation of Fife’s investment strategy is delegated by the Pensions Committee to the Executive Director of Finance and Corporate Services, who delegates this role to the Head of Finance. The Head of Finance engages various external investment managers, including LPFI (Lothian Pension Fund’s investment vehicle) to invest the Fund’s assets. It is noted that Lothian Pension Fund are signatories of the PRI and have been so since 2008.
- 2.4 The way ESG issues are incorporated into investment analysis and decision-making processes varies according to not only the asset category, but also the processes of the manager in question.

¹ University of Edinburgh Master’s in Economics Dissertation “In response to the recent Paris Agreement, how might pension funds contribute to helping reduce global climate change through investment policy?”, Cooper, 2019

LPFI Internal Equity investment

LPFI's investment managers analyse ESG data as part of the stock selection process and, on an ongoing basis, monitor ESG developments at underlying investee companies. Data and rating changes from independent providers trigger stock reviews. New financing will not be provided to companies or projects that are incompatible with aims of the Paris Agreement

Other Equity managers

During the manager appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. Through our collaborative arrangement with LPFI, we monitor the managers' implementation of their approach on a quarterly basis alongside all other investment matters, and review the PRI transparency reports of external managers, and their product level Taskforce for Climate-Related Financial Disclosures (TCFD) where available. Managers are encouraged to join PRI as signatories where they are not already members. Our ambition is to appoint managers who will not provide new financing to companies or projects that are incompatible with the aims of the Paris Agreement.

LPFI Internal Sovereign Bond investment

LPFI's investment managers analyse ESG reports and respond to government and market consultations, either directly or with our collaborative partners.

Other Corporate Debt managers

During the appointment process, we assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. Through our collaborative arrangement with LPFI, we monitor the managers' implementation of the approach on a quarterly basis alongside all other investment matters and review the PRI transparency reports of external managers and their product-level TCFD reports, where available. Our ambition is to appoint managers who will not provide new financing to companies or projects that are incompatible with the aims of the Paris Agreement.

External Property investment:

In making any new buy recommendations to Fife for consideration, LPFI will explicitly consider the ability of the manager to manage ESG risks during the manager appointment process. Management and monitoring of ESG matters by the manager will be reviewed on a quarterly basis alongside all other investment issues. Where available, LPFI will consider PRI Transparency and GRESB (Global ESG Benchmark for Real Assets) reports and product level TCFD are reviewed and, if they are not, managers are encouraged to articulate their approach to ESG and sustainability. Where appropriate, we will seek improvement to both the management and implementation of that approach. Managers are encouraged to join PRI as signatories where they are not already members.

External Real Asset management (infrastructure, timber) managers

These investments are spread across a range of limited partnership funds which are monitored by LPFI. In making any new buy recommendations to Fife, LPFI will assess the approach of managers to incorporating ESG issues into their investment analysis and decision-making processes. LPFI will monitor the managers' implementation of the approach on a quarterly basis alongside all other investment

matters, and review PRI transparency and GRESB reports and product level TCFD reports of external managers, where available. Managers are encouraged to join PRI signatories where they are not already members.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

2.5 *Voting*

We use a proxy voting agent to vote on all resolutions at AGMs and EGMs where holdings are with an active manager. The agent periodically presents their voting policy to the Pensions Committee to ensure there is good alignment of interests. Where holdings are with a passive manager, we monitor the manager's ESG report to ensure their voting record and policy is attuned to that of the Fund.

2.6 *Shareholder resolutions*

We are prepared to co-file shareholder resolutions where the issue at stake is important and co-filing aligns with the principles of the Fund.

2.7 *Stock lending*

The Fund participates in stock lending, which generates revenue for the Fund and contributes to making investment markets more efficient. With the ambition to vote on 100% of equity holdings at all shareholder meetings, we will begin to recall stock on a systematic basis for voting.

2.8 *Corporate engagement*

We engage with our investee companies on material ESG issues. We will use all methods at our disposal, including direct letters, open letters, company calls, company meetings, speaking at shareholder meetings, filing/co-filing of shareholder resolutions and proposing board members. We will do this primarily through working with collaborative partners or an engagement specialist.

2.9 *Government engagement*

We will engage with government officials and regulators to ensure that markets run efficiently, and that rules and regulations proportionally protect the interests of the various market participants. This will be done using all methods at our disposal, including direct letters, open letters, responding to consultations, working collaboratively with government departments and working collaboratively with regulators and quangos. We will do this either directly, through collaborative partners or through an engagement specialist / service providers or alongside them.

2.10 *Manager monitoring*

We actively and regularly monitor the approach of our investment managers to ESG issues, and what portfolio activity has occurred as a result of managing ESG risks.

2.11 *Conflicts of interest*

We will identify and manage conflicts of interests to put the interests of our members and employers first. It's incumbent on all our people to be alert to potential conflicts of interest and act accordingly.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we Invest.

2.12 *Investee companies*

We encourage the companies, whose shares the Fund owns, to report on relevant ESG metrics. These include the reporting of greenhouse gas emissions in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (“TCFD”). We do this through working with collaborative partners.

2.13 *Investment Managers*

We encourage the Fund’s investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate. We will do this either directly, or through working with collaborative partners.

Principle 4

We will promote acceptance and implementation of the Principles within the industry.

2.14 *Commitment to PRI*

We are transparent about the fact that we are not a signatory to the PRI but attempt to show - through this document - that we are strongly supportive of its aims.

2.15 *Investment Managers*

We endorse the PRI Principles to our managers and encourage them to become full signatories to PRI. Where this is not possible, we encourage our managers to use the six principles to guide their RI approach. We do this either directly, or through working with collaborative partners.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

2.16 *Collective Approach*

We are committed to working collaboratively to increase the reach, efficiency and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards. This includes working with appointed engagement specialists and groups such as the Institutional Investors Group for Climate Change, Climate Action 100+ and the Scottish Responsible Investment Group.

Principle 6

We will report on our activities and progress towards implementing the Principles.

2.17 *Annual Reporting*

We will provide details of our responsible investment activities in our Annual Report

2.18 *Pensions Reporting*

We publish voting information on a quarterly basis on our Pension Website, together with a summary of engagement activity. We will also make available to the Pensions Committee and Board, the ESG reports from our investment managers.

3. Climate Change & the Taskforce for Climate-Related Financial Disclosures (TCFD)

3.1 The Fund recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change. The central aim of the agreement is to strengthen the response to the global threat of climate change by:

- keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;
- strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework;
- enhancing transparency of action and support through a more robust transparency framework.

More detail on The Paris Agreement can be found at : <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

3.2 At Fife, we understand that the Paris Agreement is creating change that represents both significant risks to - and opportunities for - the Fund. As such, we are making the following commitments to climate monitoring and action:

- To support the goal of transitioning the real economy to net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius by 2100.
- To begin to measure and report on carbon-equivalent emissions throughout the equity portfolios
- To support the work of Climate Action 100+

- To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy (as has been the case with the Fund investing in several renewables projects)
- To assess the carbon intensity of all assets (using estimates if necessary) by the end of the 2022/23 reporting cycle, supported by external managers and General Partners by (supported by external managers and using estimates if necessary) by the deadline for enhanced TCFD reporting for the Scottish LGPS.
- Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements. Our ambition is that all holdings covered by TPI will have achieved a level 4 assessment and have a business plan whose carbon performance is in-line with the Paris agreement or better by 2025.
- Using data from the Transition Pathway Initiative (TPI), our ambition is not to subscribe to new equity and fixed income issuance from companies whose business plans are not aligned with the aims of the Paris agreements at the time of the fundraising.

3.3 Financial returns from current and future investments will affect our ability to fund future pension payments, and so we have committed to implement processes that adhere to TCFD recommendations as follows:

Governance

The Pensions Committee will monitor stewardship of the Fund's assets at least annually. This includes considering reporting on RI issues and specific climate related risks and opportunities. The Head of Finance will ensure that training on climate related issues is made available to all members of the Pensions Committee and Pension Board members. The Pensions Committee:

- affirms the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends into its decision-making;
- delegates to Fund officers with advice from the Joint Investment Strategy Panel to ensure that they take ESG issues, including climate change and carbon risk, into account in their investment decision-making;
- affirms the Fund's policy of not divesting solely on the grounds of non-financial factors;
- notes that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies;
- agrees that the Fund will use its shareholdings in companies that perform poorly on carbon efficiency measures to influence engagement activity.

3.4 *Strategy*

We will work individually and with our collaborative partners to drive for openness and transparency on climate related issues affecting our investments.

3.5 *Risk Management*

We will work both individually and with the internal team at LPFI to help understand and manage the climate risk within the Fund.

3.6 *Monitoring*

We will use monitoring tools with the aim of mitigating risk to Fund assets from trends towards net-zero carbon and more broadly from climate change. The Joint Investment Strategy Panel reviews and scrutinises RI issues and specific climate-related risks and opportunities at least annually. The internal investment team at LPFI has access to data services and analytical tools to assist the Fund in monitoring climate risk at as granular a level as possible.

3.7 *Carbon Analysis*

We note that carbon-equivalent foot printing produces a simple metric, which is backward looking and can be misinterpreted. It encourages selective divestment of the shares of high emission companies as some investors 'greenwash' their portfolios. Rather than divesting, we encourage our managers to incorporate an analysis of carbon output into their risk assessment of individual companies and their stocks. In addition, we will actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of carbon risk (or any other risk) points to poor financial outcomes, share divestment by fund managers is, of course, an option.

4. Conclusion

- 4.1 It is our belief that we must deliver a valued and sustainable retirement savings product for our existing and future members. We believe that as a provider of responsible capital and working with our partners, the Fund should be an agent for positive change, engaging with companies to help them maintain or adopt best business practices and sustainable business models.

28 March 2023

Agenda Item No. 9

Azets – Annual Audit Plan Fife Pension Fund 2022/23

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The attached report provides members with details of Azets External Annual Audit Plan for Fife Pension Fund for the financial year 2022/23 and sets out the risks highlighted, planned work, audit scope and timing

Recommendation(s)

The Committee is asked to: -

- (1) Note the content of the Azets External Annual Audit plan for 2022/23

Resource Implications

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

Legal & Risk Implications

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

Impact Assessment

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

Consultation

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

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1. Azets – Fife Pension Fund - External Audit Plan 2022/23

Report Contact

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Head of Finance

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Fife Pension Fund

External Audit Annual Plan 2022/23

March 2023



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Introduction

Azets have been appointed by Audit Scotland as the external auditor to Fife Pension Fund (“the Fund”) for the period 2022/23 to 2026/27.

This document summarises the work plan for our 2022/23 external audit. The core elements of our work include:

- an audit of the 2022/23 annual report and accounts.
- consideration of the wider scope areas of public audit work.
- any other work requested by Audit Scotland.

We expect that our audit will have a similar underlying approach to that of your previous external auditor, Audit Scotland, although there are some changes to the Code of Audit Practice and auditing standards that come into effect for the first time in 2022/23, which are reflected in this document.

Adding value

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

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

Openness and transparency

This report will be published on Audit Scotland’s website www.audit-scotland.gov.uk.

Audit scope and general approach

Responsibilities of the auditor and the Fund

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

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

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

[Appendix 1](#) provides further details of both our responsibilities and those of the Pensions Committee.

Risk-based audit approach

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

Discussions with senior officers	Our understanding of the sector, its key priorities and risks	Attendance and observing the Pensions Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and public sector auditors	Discussions with internal audit and reviews of plans and reports
Review of corporate strategies and plans	Review of the corporate risk register	The outcome of prior years' audits

Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Pensions Committee.

Professional standards and guidance

We perform our audit of the financial statements in accordance with International Standards on Auditing UK (ISAs (UK)), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Our new Audit Scotland appointments include Fife Council and Lothian Pension Fund and where practicable and appropriate we will share knowledge between our teams to generate efficiencies in the delivery of our audits.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information

about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the Fund's arrangements for taking action on any issues reported in the national performance reports which have a local impact. We also consider the extent to which the Fund uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to the Fund is used as efficiently and effectively as possible.

Assurance protocols

Audit Scotland produces protocols to provide an agreed framework for auditors to seek and provide assurances in specific areas. Assurance protocols are in place for the Local Government Pension Scheme. We may utilise these protocols to gain assurance in respect of the calculation of pension contributions from auditors of employing bodies.

Delivering the audit – post pandemic

Hybrid audit approach

We intend to adopt a hybrid approach to our audit which combines on-site visits with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Skype, Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location and there is no longer a need for duplicate copies to be signed.

Approach to audit of the annual accounts

Our objective when performing an audit of the annual accounts is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our general approach, we will:

- perform risk assessment procedures including updating our understanding of the entity and its environment, the financial reporting framework and system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances or disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor's report of the extent to which the audit was

capable of detecting irregularities, including fraud, and respective responsibilities for prevention and detection of fraud.

Key audit developments in 2022/23

Revised auditing standards¹, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The in-depth nature of these additional procedures, as well as updated tools and techniques that may come into scope, will also offer additional opportunity to provide insights and constructive feedback on the way the Fund manages risks. [Appendix 2](#) provides further details on the implications of these new requirements.

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

The basis for our assessment of materiality is set out in [Appendix 3](#).

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work is not for the purpose of expressing an opinion on the effectiveness of internal controls.

¹ Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement in the financial statements and ISA (UK) 240 on material misstatements caused by fraud came into effect for audits of financial statements with periods commencing on or after 15 December 2021.

We will report to the Pensions Committee, significant deficiencies in internal controls that we identify during the audit. The scope of our work is not designed to be an extensive review of the controls.

Going concern

In most public sector entities (but not all), the financial reporting framework envisages that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest that the application of the going concern basis. Our wider scope audit work considers the financial sustainability of the Fund.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control; and
- Are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Anti-money laundering

We require the Fund to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Correspondence

People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.

The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will make this judgement using their professional and technical knowledge.

Wider audit scope work

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. [Appendix 1](#) provides detail of the wider scope areas of public sector audit work. Our initial risk assessment and scope of work planned for 2022/23 is outlined in the '[Wider Scope](#)' section of this plan.

National risk assessment

Where particular areas of national or sectoral risk have been identified by the Accounts Commission and Auditor General, they will request auditors to consider and report on those risks as they apply at a local level. For 2022/23 the following areas have been identified:

- Climate Change.
- Cyber Security.

[Appendix 4](#) provides further detail as to the scope of this work.

Reporting our findings

We will provide judgements on the pace and depth of improvement in reporting our findings on the wider scope areas. We will use the following grading to provide an overall assessment of the arrangements in place:



Significant and other risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises the significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p>Management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p>Risk of material misstatement: Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for

Identified risk of material misstatement	Audit approach
	<p>appropriateness, corroboration and to ensure approval has been undertaken in line with the Fund's journals policy.</p> <ul style="list-style-type: none"> • Gaining an understanding of the accounting estimates and critical judgements made by management. We will challenge assumptions and consider the reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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

Identified risk of material misstatement	Audit approach
<p>Fraud in revenue recognition</p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the Fund could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Revenue (occurrence / completeness): High 	<p>Income recognised in the Fund's accounts relates to contributions received from member bodies and transfers in from other pension funds.</p> <p>We do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate income of this nature and therefore have rebutted this risk. We will review our assessment during the fieldwork stage of our audit.</p>
<p>Fraud in non-pay expenditure</p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure, in particular, around the year end.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Non-pay expenditure (occurrence / completeness): High 	<p>Expenditure recognised in the Fund's accounts relates to benefits payable, payments to and on account of leavers and management expenses. We have assessed benefits payable to be the Fund's only material expenditure stream.</p> <p>We perform separate tailored testing on benefits payable and therefore have rebutted this risk.</p> <p>We will review our assessment during the fieldwork stage of our audit.</p>

Identified risk of material misstatement	Audit approach
<p>Investments valuations (key accounting estimate)</p> <p>The Funds held net investments of £3.534billion as at 31 March 2022, of which 45% (£1.595billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets.</p> <p>Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error.</p> <p>Inherent risk of material misstatement:</p> <p>Investments (valuation / existence):</p> <p>High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the fund managers and the scope of their work. • Evaluating the competence, capabilities and objectivity of the fund managers. • Considering the basis on which the valuation is carried out and the challenge in the key assumptions applied. • Testing the information used by the fund managers to ensure it is complete and consistent with our understanding. • Ensuring that the year end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct.

Identified risk of material misstatement	Audit approach
<p>Present Value of Retirement Obligations (key accounting estimate)</p> <p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 26 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the Funds and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.</p> <p>Inherent risk of material misstatement:</p> <p>Retirement obligations (valuation):</p> <p>High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Reviewing the controls in place to ensure that the data provided to the actuary is complete and accurate. • Considering the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreeing the disclosures in the financial statements to information provided by the actuary.

Wider scope

Introduction

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of audit areas:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the Funds' key priorities and risks along with discussions with management and review of Pensions Committee minutes and key strategy documents.

Our initial assessment of the Fund's arrangements across the wider scope areas is set out in this section. We have not identified any significant risks at this stage of our audit.

Audit planning is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report.

Our audit approach to the wider scope audit areas



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Consideration

The primary objective of the Fund is to ensure sufficient funding in the long term so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. The Funding Strategy Statement expresses the funding objective, which informs the investment strategy. The Funding Strategy Statement is reviewed at least triennially. Following the latest actuarial valuation in 2020, the Investment Strategy was revised and approved by the then Superannuation Fund & Pensions Sub Committee in June 2021.

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

1. the cost of future pensions; and
2. the value of investments.

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

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

The value of investments is of increased significance given 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.

In its 2021/22 annual report and accounts, the Fund reported a performance return on investments of 6.3% for 2021/22 and 10.1% return for the rolling three year period. The Fund exceeded its strategic investment return objective over the

Consideration

rolling three year period. Funding levels were at 97% of the 2020 triennial valuation.

Fife Pension Fund has seen the largest increase in net assets over the last 5 years when compared to other Scottish Local Government Pension Scheme funds. This reflects investment returns, contribution rates and benefit payments. The Fund has the highest employer contribution rate for any Scottish LGPS fund, at 24.5% for the main employer, and remains cash flow positive in dealings with members.

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.

Our audit response:

We will monitor the Funds approach to monitoring investment performance focusing on the identification of investment risk and the development of mitigating actions.

We will review the Funds investment return performance against benchmark over the short, medium and long term. We will also consider performance against comparators from other Scottish Local Government Pension Funds.



Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Consideration

In 2021/22, the value of the Fund's net assets increased to £3.531billion. Throughout 2021/22, the Fund undertook some changes to the investment allocation as it continued to progress on the implementation of its agreed investment strategy.

The Fund's current funding strategy statement was prepared as part of the 2020 valuation and approved by Committee in 2021. A paper was presented to Pensions Committee in December 2022 seeking approval to update the funding strategy as a consequence of changes in Regulations.

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

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

Our audit response:

We will review, conclude and report on the following:

- Whether the Fund can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance.
- Whether the Fund has arrangements in place to ensure systems of internal control are operating effectively.



Vision, Leadership and Governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Consideration

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

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

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

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

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

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

Consideration

Lothian Pension Funds, which entails the Lothian Fund, through its investment vehicle, LPFI Limited to provide investment support.

In 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.

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

In its 2021/22 Governance Compliance Statement, the Council, as Administering Authority, reported that it is compliant with all principles with the exception of training where partial compliance was recorded. Partial compliance was reported as not all members of the Pensions Committee had complied with the policy and completed the minimum training hours requirement as outlined in the policy.

Induction training was carried out in June 2022 following the Local Government Elections and the appointment of new members to the Committee.

Our audit response:

We will review, conclude and report on:

- Whether the Fund can demonstrate that the governance arrangements in place are appropriate and operating effectively.
 - The transparency of decision-making, financial reporting and performance data.
-



Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Consideration

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

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

The Fund took part in a CEM Benchmarking exercise in 2020/21. 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.

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

In 2021, the Fund initiated a review of its scheme administration. An internal review was followed by an independent review carried out by Hymans Robertson. The aim of the review was to ensure that the Pensions Team continues to meet its service requirements to members and employers. An action plan is being developed with a view to addressing recommendations over the next 18 months.

The Fund has an Administration Strategy and suite of key performance indicators (KPIs) which are reported to the Pensions Committee on a quarterly basis. The Administration Strategy was updated and approved by the Pensions Committee in September 2022. Following the approval of the updated Administration Strategy in there is a commitment to produce a revised set of KPIs. Work is continuing to develop the suite of KPIs, which will be concluded for reporting in March 2023. In

Consideration

the meantime, performance reporting has continued to be presented to the Pensions Committee.

Our audit response:

We will review, conclude and report on;

- How the Fund demonstrates a focus on improvement.
- How the Fund provides a clear link between investment decisions and actual performance achieved.
- The effectiveness of working with partners including collaboration with Lothian Pension Fund.

Your Azets audit management team

Nick Bennett: Engagement Lead

nick.bennett@azets.co.uk

Nick has over 30 years' experience of public sector auditing and has been heavily involved in developing public sector accounting standards. Nick's experience and expertise is acknowledged both by clients and by other professionals involved right across the public sector. Nick is the appointed Engagement Lead to Fife Pension Fund.



Karen Jones: Engagement Manager

karen.jones@azets.co.uk

Karen is one of the directors responsible for our Audit Scotland appointments. She has considerable experience in planning and delivering public sector audits, producing management reports and liaising with senior management and audit committees.

Karen will work alongside Nick to deliver the external audit to Fife Pension Fund.



Audit timetable

The submission date for audited annual accounts in local government is generally set to be consistent with the date specified in the accounts regulations by which the Fund is required to approve its audited accounts. The Coronavirus (Scotland) Act 2000 permitted a deferral in 2019/20 and 2020/21 to 30 November, and a temporary amendment to the accounts regulations allowed a submission date of 30 November for 2021/22. However, the submission date is returning to pre-pandemic 30 September for 2022/23.

We have set out below target months which align to the schedule of Pensions Committee meetings. We aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues.

Audit work/output	Description	Target month/s	Pensions Committee	Deadline
Audit plan	Planning meetings, understanding the entity, risk assessment. Audit plan setting out the scope of our audit, including key audit risks, presented to the Pensions Committee.	February / March	28 March 2023	31 March 2023
Interim audit	Interim audit including review of accounting systems.	April - June	N/A	N/A
Final audit	Accounts presented for audit and final audit visit begins	July - September	N/A	N/A

Audit work/output	Description	Target month/s	Pensions Committee	Deadline
Independent Auditor's Report	This report will contain our opinions on the financial statements, annual governance statement and management commentary.	September	28 September 2023	30 September 2023
Annual Report to the Pension Committee and the Controller of Audit	At the conclusion of each year's audit we issue an annual report summarising our work and all opinions, conclusions, significant issues and recommendations. This report pulls together all of our work under the Code of Audit Practice.	September	28 September 2023	30 September 2023

Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

High quality audit work is essential to successfully deliver a fully ISA and Code of Audit Practice compliant audit. For 2022/23, the new auditor appointment process provided Audit Scotland with a fair representation of the current audit market and highlighted the increasing requirements, expectations and scrutiny of the audit profession.

These factors have led to above inflation increases in the cost of audit. Whilst these increases are significant, they are consistent with evidence obtained from the profession and other UK audit agencies. On setting fees, Audit Scotland has ensured that efficiencies have been fully utilised to mitigate the impact.

For the local government sector, the average fee increase is 12.5%, where the average fee for local government pension fund audits was previously £34,001 and has risen to £38,625.

Audit Scotland sets an “expected” audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors’ experience, new requirements, or significant changes to the audited body.

The expected fee level notified to the Fund for 2022/23 is £42,240, which is £4,710 higher than the fee agreed in the previous year and reflects the sectoral increase of 12.5%.

As auditors, we negotiate a fee with the Fund that reflects our assessment of the work required to address the risks identified during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

For 2022/23, we propose setting the audit fee above the expected fee level to reflect the following areas of work:

Area	Fee
Additional costs associated with this being the first year of our audit appointment and developing our understanding of the Fund, increased focus on IT general controls, and delivering a hybrid style audit.	£3,985

Our audit fee for the current year (with prior year comparatives) is as follows:

	2022/23	2021/22
Auditor remuneration	£60,915	£32,240
Pooled costs	-	£3,380
Audit support costs	£2,160	£1,730
Sectoral cap adjustment	(£16,850)	-
Total fee	£46,225	£37,530

We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge a fee for additional audit work. An additional fee will also be required in relation to any other significant exercises not within our planned audit activity.

Audit independence and objectivity

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, the FRC's Ethical Standard stipulates that where an auditor undertakes non-audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence.

Azets has not been appointed to provide any non-audit services during the year.

We confirm that we comply with the FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Fund, its committee members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 1: Responsibilities of the Auditor and the Fund

The Accounts Commission, Controller of Audit and Audit Scotland

The Accounts Commission is an independent public body. Its members are appointed by Scottish Ministers and are responsible for holding local government to account.

Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Auditor responsibilities

Code of Audit Practice

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

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

Our responsibilities

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



We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Pensions Committee and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

	<h3>Financial management</h3> <p>Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.</p> <p>Auditor considerations</p> <p>Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.</p>
	<h3>Financial sustainability</h3> <p>Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.</p> <p>Auditor considerations</p> <p>Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.</p>

	<h3>Vision, leadership and governance</h3> <p>Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.</p> <p>Auditor considerations</p> <p>Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.</p>
	<h3>Use of resources to improve outcomes</h3> <p>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.</p> <p>Auditor considerations</p> <p>Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.</p>

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

Funds responsibilities

Fife Council is the administering authority for the Fife Pension Fund. The Council delegates this responsibility to the Pensions Committee. The Pensions Committee has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	Fund responsibilities
Corporate governance	<p>The Fund is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>The Fund has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report, where applicable, in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p>

Area	Fund responsibilities
	<p>The Fund is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Fund is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct for prevention and detection of fraud and error	<p>The Fund is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
Financial position	<p>The Fund is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.

Appendix 2: Impact of revised auditing standards

Revised auditing standards, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The table below provides further detail on the implications of these new requirements.

Key change	Impact on the Fund & our approach
Enhanced risk identification and assessment, promoting more focused auditor responses to identified risks	<p>Management and those charged with governance may receive more up-front questions as we plan the audit and identify and assess risks of material misstatement.</p> <p>We may conduct planning and risk assessment procedures at a different time to ensure that our understanding is comprehensive, and that information is leveraged effectively and efficiently.</p> <p>To facilitate a more robust risk-assessment, we may request additional information to enhance our understanding of systems, processes and controls. For example, we may request:</p> <ul style="list-style-type: none"> • a better understanding of the Fund's structure and operations and how it integrates information technology (IT) • more information about the Fund's processes for assessing risk and monitoring its system of internal control • more detailed narratives about how transactions are initiated, recorded, processed and reported • policies and procedure manuals, flowcharts and other supporting documentation to validate our understanding of the information systems relevant to the preparation of the financial statements • more information to support our inherent risk assessment.

Key change	Impact on the Fund & our approach
	<p>This information not only informs our risk assessment but also assists us in determining an appropriate response to risks identified, including any new significant risks which require a different response.</p>
<p>Understanding and acting on risks associated with IT</p>	<p>We will be asking tailored questions and making information requests to understand the IT environment, including:</p> <ul style="list-style-type: none"> • IT applications • supporting IT infrastructure • IT processes • personnel involved in the IT processes. <p>Combined with the controls that may be needed to address the identified and assessed risks of material misstatement, this understanding may also identify existing and new risks arising from the use of IT. Therefore, we will be asking more focused questions and requesting additional information to understand the general IT controls that address such risks. For example, we may have questions in relation to general IT controls over journal entries (e.g. segregation of duties related to preparing and posting entries) to address risks arising from the use of IT.</p> <p>Depending on our assessment of the complexity of systems and associated risks, we may also involve additional team members, such as IT specialists.</p>
<p>Enhanced procedures in connection with fraud</p>	<p>We will be asking targeted questions as part of an enhanced approach to fraud, including discussing with the Fund:</p> <ul style="list-style-type: none"> • any allegations of fraud raised by employees or related parties • the risks of material fraud, including those specific to the sector. <p>Combined with other information, and any inconsistencies in responses from those charged with governance and management, we determine implications for further audit procedures. Work in connection with fraud may also now include the use of audit data analytics, or the inclusion of specialists in our engagement team to ensure we obtain sufficient appropriate audit evidence to conclude whether the</p>

Key change	Impact on the Fund & our approach
	<p>financial statements are materially misstated as a result of fraud.</p> <p>In addition to existing communication and reporting requirements relating to irregularities and fraud, there may be further matters we report in connection with management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.</p> <p>These enhanced requirements may assist in the prevention and detection of material fraud, though do not provide absolute assurance that all fraud is detected or alter the fact that the primary responsibility for preventing and detecting fraud rests with the Fund and management.</p>
Enhanced requirements for exercising professional scepticism	<p>Challenge, scepticism and the application of appropriate professional judgement are key components of our audit approach. You may receive additional inquiries if information is found that contradicts what our team has already learned in the audit or in instances where records or documents seen in the course of the audit appear to have been tampered with, or to not be authentic.</p>
Using the right resources, in the right way, at the right time	<p>One of our new strategic quality objectives sets out that we will strive to use the right resource, in the right way, at the right time. This may mean increasing the use of specialists (for example in relation to general IT controls) or changing the shape of the audit engagement team to ensure that we are able to provide appropriate challenge and feedback in specialist areas.</p> <p>This will include appropriate use of technology, including data analytics.</p>

Appendix 3: Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

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

Materiality

	Materiality £million
Overall materiality for the financial statements	53.000
Performance materiality	39.750
Trivial threshold	0.250
Materiality	Our initial assessment is based on approximately 1.5% of the Fund's 2021/22 net assets as disclosed in the 2021/22 audited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Fund.
Performance materiality	<p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to</p>

	an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In accordance with Audit Scotland's planning guidance this should not exceed £250,000.

Special materiality for dealings with members

	Materiality £million
Dealings with members materiality	5.700
Performance materiality	4.275
Trivial threshold	0.250
Materiality	We apply a lower materiality for dealings with members, based on the fact these transactions are significant to the Fund's activities and it would not be appropriate to use the asset-based materiality to them. Our initial assessment is based on approximately 5% of the Fund's 2021/22 gross expenditure as disclosed in the 2021/22 audited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing the Fund's dealings with members.
Performance materiality	Using our professional judgement, we have calculated performance materiality at approximately 75% of overall materiality.

Appendix 4: National risk areas under scope of audit in 2022/23

Climate change

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets. All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support.

Public audit has an important and clear role to play in:

- helping drive change and improvement in this uncertain and evolving area of work
- supporting public accountability and scrutinising performance
- helping identify and share good practice.

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

For 2022/23 audits, auditors are required to provide answers to the questions set out in the following table which are intended to gather basic information on the arrangements for responding to climate change in each body:

Key questions

What targets has the body set for reducing emissions in its own organisation or in its local area?

Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?

How does the body monitor and report progress towards meeting its emission targets internally and publicly?

Has the body considered the impact of climate change on its financial statements?

What are the areas of the financial statements where climate change has, or is expected to have, a material impact?

Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

Cyber security

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place.

A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

For 2022/23 audits, auditors are advised to consider risks related to cyber security at audited bodies. However, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission consider that meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23.

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28th March 2023

Agenda Item No. 10

Update on 2022/23 Fife Pension Fund Internal Audit Plan and 2022/23 Issued Audit Reports

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

Wards Affected: All

Purpose

To submit to Members of the Pensions Committee an update on progress towards delivering the 2022/23 Pension Fund Internal Audit Plan as well as a summary of findings from the Internal Audit Reports finalised since the last meeting of the Pensions Committee.

Recommendation(s)

Members are asked to note the contents of this report, including the update on progress towards delivering the 2022/23 Internal Audit Plan at Appendix A and summary of findings at Appendix B.

Resource Implications

None.

Legal & Risk Implications

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

Impact Assessment

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

Consultation

Audit Services has consulted all subjects of the audit reports.

1.0 Background

- 1.1 The Fife Pension Fund's Internal Audit Plan for the 2022/23 financial year was approved at the Pensions Committee on 26 September 2022.

2.0 Update on 2022/23 Audit Plan

- 2.1 A progress report is included at Appendix A.
- 2.2 To enable the Pensions Committee to form an opinion on the effectiveness of the internal control environment, to provide assurance where internal controls are working well and to highlight areas for concern, the Service Manager, Audit and Risk Management Services, prepares a summary of the Pension Fund Audit Reports issued by Audit Services at Appendix B.

List of Appendices

- A. Progress Report on 2022/23 Fife Pension Fund Internal Audit Plan
- B. Summary of Issued Audit Reports

Report Contact:

Carolyn Ward

Audit Team Manager, Audit and Risk Management Services

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2022/23 Fife Pension Fund Internal Audit Plan – Progress Report

Not Yet Commenced	Planning	Fieldwork	Reviewing	Draft Report Issued	Complete / Pensions Committee Date
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2022/23 INTERNAL AUDIT PLAN	Proposed Coverage	Status 28/03/23
Cyber Security	Review of the arrangements in place to ensure that the risk of cyber-crime is being appropriately mitigated.	Fieldwork
Risk Management Arrangements	Review of Fife Pension Fund's risk management arrangements against recognised good practice.	Fieldwork
Follow – Up Review (Training and Resources, Report P5)	Review undertaken by internal audit staff to provide formal assurances to management and Elected Members that recommendations previously agreed have been implemented.	28/03/23
Post Audit Reviews (PARs)	Completion of the PAR exercise, whereby formal assurances are obtained from management that internal audit recommendations have been implemented.	13/12/22
Advice and Guidance	Provision of ad hoc support to assist services in respect of specific queries and contribute to the delivery of improvements in the Fife Pension Fund's framework of governance, risk management and control.	Ongoing
Specific Investigations	To respond to requests for advice and assistance as required in respect of cases of suspected fraud, corruption or malpractice.	Ongoing

SERVICE, REPORT AND PURPOSE	SUMMARY OF PENSION FUND AUDIT REPORTS
<p>1. Fife Pension Fund</p> <p>- Training and Resources Follow Up - Pensions (Report P01/22)</p>	<p>The 2022/23 Internal Audit Plan for the Fife Pension Fund contains an allocation of days for Audit Services to carry out a formal follow-up review. This allocation is used to assess, through consideration of evidence, the extent to which recommendations previously agreed with management have been implemented. A follow-up review of Report P5, Training and Resources, issued on 25 March 2021, has been undertaken.</p> <p><u>Audit Opinion:</u></p> <ul style="list-style-type: none"> • Level of Assurance Grade 1 • System Materiality Grade 4 • Overall Risk Low <p><u>Findings:</u></p> <p>The original report P5, made 5 recommendations. This follow-up audit identified that four of those recommendations have been fully implemented and one partly.</p> <p>The following area for improvement was identified:</p> <ul style="list-style-type: none"> • A Training Needs Assessment (TNA) was carried out between July – September 2022 to assess the needs of the new Pension Board and Committee members. Although some training has been provided / planned, there are no clear links to the TNA and a training plan has not been developed as intended. <p>Satisfactory action has been agreed to address the 1 partly implemented recommendation (1 Substantial) by 30 September 2023.</p>

28th March 2023

Agenda Item No. 11

Risk Management - Quarterly Review

Report by: Elaine Muir, Head of Finance

Wards Affected: ALL

Purpose

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

Recommendation(s)

The Committee are asked to:-

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

Resource Implications

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

Legal & Risk Implications

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

Impact Assessment

An EqIA Assessment is not required.

Consultation

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

1.0 Background

- 1.1 As reported previously, a fund specific risk register has been developed in accordance with the Pensions Regulator's Code of Practice. The risk register covers investment, governance and administration risk. It is held as a separate risk register on Pentana, Fife Council's risk management system and is reviewed on a quarterly basis by the Pensions Governance Group, which is an officers group chaired by the Head of Finance.
- 1.2 The risk register forms a key part of the risk management strategy for Fund. It provides a structured and focussed approach to managing risks.
- 1.3 An updated risk register was presented to committee in December. Since that time the register has been reviewed by the Pensions Governance Group at its meeting on 16 February 2023. This review included an assessment of risks and the effectiveness of associated internal controls, as well as considering any additional risks to be added and any additional context.
- 1.4 This report provides an update on the Risk Register since the last Committee.

2.0 Risk Register

- 2.1 The following grids provides a summary of the target risk scores compared to the current risk scores and the risk scores for last quarter for the risks associated with the Pension Fund.

Target	Previous Quarter				Current																																																	
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- 2.2 There are currently 8 risks that have current scores greater than the target. This is due to the internal controls identified not yet fully effective in mitigating against the risk identified. Work is continually ongoing to move to fully effective controls where possible. Progress is reviewed on an ongoing basis, forms part of teams workplans and discussed quarterly at the Pensions Governance Group.
- 2.3 Comparison of the scores demonstrates that following review, the current risk score has increased for some risks, reflecting the current position.
- 2.4 Since the last report some of the risks have been expanded to reflect the current situation and the status of some areas of work at this time. The risk score has also been updated to reflect these circumstances. Details are as follows:
 - **Failure to Comply with LGPS and other regulations**
The internal controls have been updated to reflect the number of new starts in the team and the requirement for training. At present the team members are undertaking training and development and there is an increased checking of their work. Although a risk the likelihood remains at "unlikely" due to the controls in place.
The risk has also been expanded to include the regulations associated with the McCloud Judgement and the delay in information from some employers impacting on the ability to verify records. This has resulted in an increase in the risk score.

Regular engagement is continuing with Employers and information has been shared on what data is required.

- **Failure to keep pension records up to date**

This risk has been updated to include records not being updated in time for the McCloud remedy and underpin. The controls associated with this include ongoing communication with employers and verification processes, which are now classed as partially effective.

Regular engagement with Employers is taking place.

- **Committee and Board do not adhere to governance arrangements**

This risk has been expanded to include the need for a Pension Board Constitution and controls updated to reflect this.

- **Employers Unable to participate in the scheme**

This risk has been expanded to recognise that Employers may request cessation valuations as they no longer wish to remain in the scheme. It is considered that the impact and controls will remain the same.

- 2.5 Internal controls associated with processing of pension payments and lump sums and losses to the fund involve updating of documented procedures for both administration and investment activities. This work is ongoing and due for completion by 30 September 2023.
- 2.6 Development work on controls associated with the maintenance of Altair is also being progressed and form part of the recommendations included in a recent audit report on Pensions Contributions. This work is due for completion by 30 April 2023.
- 2.7 Staffing training and provision of training is also considered ineffective at this time. This is reflecting the recruitment process that has just been completed and that staff will require training for a period.
- 2.8 It should also be noted that in some instance controls are fully effective but external influences and factors can impact on the control lead to a change in the effectiveness.
- 2.9 There are currently 7 risks classed as insignificant, 8 classed as low risks and 4 risk are identified as medium.
- 2.10 The Risk Register provided at Appendix 1 provides full details of the risk, the associated impact, the risk factors and the controls in place to mitigate against the risk. The current risk score reflects the position as at February 2023.
- 2.11 The format of risk reporting is evolving with a view to improving the presentation to a more summarised position and bringing in details of trends of risk scores over time.

3.0 Conclusions

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

List of Appendices

1. Pension Fund Risk Register

Background Papers

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





- LGPS Risk Management Policy, Superannuation Fund and Pensions Sub-Committee and Fife Pension Board May 2019
- Risk Management Review Superannuation Fund and Pensions Committee and Fife Pension Board September 2021
- Risk Management Quarterly Update Pensions Committee December 2022













Report Contact














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Risk Status	
	High
	Medium
	Low
	Insignificant














Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Failure to process pension payments and lump sums on time	Retiring members will be paid late which may have implications for their own finances. Reputational risk for the Fund. Financial cost to the fund if interest has to be paid to members.	Non-availability of Altair pension system, ORACLE payroll system key staff or error omission, Availability of information and payment from AVC provider etc.	Laura C Robertson	12	BC plans covering the F& CS Directorate		4	3	16 Feb 2023
					Robust maintenance and update of Altair				
					Hosted contractual arrangement for Altair including Disaster Recovery Plan and Business Continuity Plan				
					Sufficient staff cover arrangements				
					Staff training and development and checking of work				
					Robust maintenance and update of ORACLE.				
					Hosted contractual arrangement for ORACLE including Disaster Recovery Plan and Business Continuity Plan				
					Comprehensive documented procedures and guides				
					Information and Funds received from AVC providers received on a timeous basis				
									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Failure to collect and account for contributions from employers and employees on time	Adverse audit opinion for failure to collect contributions by 19th of month Potential delays to employers' FRS17,FRS102 and IAS19 year-end accounting reports	Non-availability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. Failure of employer to provide required information.	Laura C Robertson	9	Robust maintenance and update of Altair		3	3	16 February 2023
					Sufficient staff cover arrangements				
					Staff training and development and checking of work				
					Ongoing communication with employers				
					Regular monitoring of cash flow				
					Robust maintenance and update of ORACLE.				
					Comprehensive documented procedures and guides				
					Maintenance and monitoring of spreadsheets ensuring contributions are paid within 19 days of pay day.				
					Administration strategy sets out requirements of both employers and Administering Authority				
					Budgetary control reports are prepared which estimate the costs and income based on trends of previous years. These provide indicative information to monitor financial management of the fund.				
									
Financial Consequences	Moderate								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Inability to meet liabilities as they fall due	Immediate cash injections would be required from employers or increased contribution rates.	Contributions from employees/employers too low Failure of investment strategy to deliver adequate	Laura C Robertson	12	Funding Strategy Statement identifies how employers' liabilities are best met going forward and contributions are updated in line with funding strategy which is based on a risk approach. Admitted have their own set contribution as determined by the risk-based funding strategy and reflective of their own liabilities.		4	4	16 February 2023
					Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy				

		returns Significant increases in longevity, etc.			groups and is designed to generate sufficient return to continue to pay liabilities as they fall due				
					Full Actuarial Valuation undertaken every 3 years.	✓			
					Ongoing advice from investment consultants etc	✓			
					Regular monitoring of cash flow	✓			
									
Financial Consequences	Moderate								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Inability to keep service going due to loss of main office, computer system or staff. Reliance on Fife Council corporate systems including O365 MS Teams and Sharepoint	Temporary loss of ability to provide service.	Fire, bomb, flood, pandemics, flu epidemic, strike action etc.	Laura C Robertson	12	BC plans covering the F& CS Directorate	✓	6	4	16 February 2023
					Robust maintenance and update of Altair				
					Hosted contractual arrangement for Altair including Disaster Recovery Plan and Business Continuity Plan	✓			
									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Loss of funds	Financial loss to the fund	Fraud or misappropriation of funds by an employer, employee, agent or contractor	Elaine Muir	12	Regular monitoring of cash flow		6	3	16 February 2023
					Internal and external audit regularly test those appropriate controls are in place and working effectively				
					Regulatory control reports from investment managers, custodian, etc are also reviewed by audit.				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Reliance is also placed on Financial Conduct Authority registration				
					Performance monitored on an ongoing quarterly basis				
					Newsletter for Pension Scheme members				
					Annual Employer Forum				
					National Fraud Initiative				
					Internal Policies and Procedures in place.				
									
Financial Consequences	Moderate								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Employers become unable to participate in scheme due to collapse of private contractors and other bodies admitted into the Fund. Employers wishing to cease participation in the scheme	Fund matures more quickly	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns, etc.	Elaine Muir	6	Ongoing communication with employers		3	3	16 Feb 2023
					Funding Strategy Statement identifies how employers' liabilities are best met going forward and contributions are updated in line with funding strategy which is based on a risk approach. Admitted have their own set contribution as determined by the risk-based funding strategy and reflective of their own liabilities.				
					Full Actuarial Valuation undertaken every 3 years.				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Employer Covenant issued by Actuary following actuarial assessment to allow admitted bodies access to the Fund.				
					Maintenance and monitoring of spreadsheets ensuring contributions are paid within 19 days of pay day.				
Financial Consequences	Major								












Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Significant rises in employer contributions due to poor/negative investment returns	Poor/negative investment returns leading to increased employer contribution rates.	Poor economic conditions, incorrect investment strategy. Poor performance of investment managers	Elaine Muir	16	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due		3	3	16 Feb 2023
					Ongoing advice from investment consultants etc				
					Performance monitored on an ongoing quarterly basis				
					Diversified range of investment managers over different asset classes				
					Funding Strategy Statement identifies how employers' liabilities are best met going forward and contributions are updated in line with funding strategy which is based on a risk approach.				








					Admitted bodies have their own set contribution as determined by the risk-based funding strategy and reflective of their own liabilities.				
					Strategic Investment advice from Independent Advisors	✓			
				🔴			✓	✓	
Financial Consequences	Major								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Failure of Global Custodian	Financial loss to the fund. Loss of information.	Financial collapse of global custodian or failure to safeguard assets or records.	Elaine Muir	5	IT contacts are managed and reviewed in line with industry best practice	✓	4	4	16 Feb 2023
					Performance monitored on an ongoing quarterly basis	✓			
					Legal agreement with Custodian	✓			
					Credit Rating monitored on an ongoing basis	✓			
					Regulated by Financial Services Authority	✓			
					Assets not on Custodian balance sheet	✓			
					Annual review meeting which takes place to discuss and ensure contractual obligations have been fulfilled.	✓			
				🟡			🟡	🟡	
Financial Consequences	Catastrophic								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Failure of Investment Manager to manage equities and other investments.	Financial loss to the fund	Market sector falls substantially, expertise of fund managers, continuity of skills and expertise	Elaine Muir	4	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due		3	3	16 Feb 2023
					Ongoing advice from investment advisers and consultants and actuaries etc				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Performance monitored on an ongoing quarterly basis				
					Diversified range of investment managers over different asset classes				
					Strategic Investment advice from Independent Advisors				
Financial Consequences	Major								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Failure to comply with LGPS and other Regulations	Wrong pension payments made or estimates given. New scheme and regulations not fully known therefore staff will be unfamiliar Not actioned McCloud remedy in time	Lack of technical expertise/staff resources to research regulations IT systems not updated to reflect current legislation, etc	Laura C Robertson	9	Staff training and development and checking of work		9	2	16 Feb 2023
					Ongoing advice from investment consultants etc				
					Internal and external audit regularly test those appropriate controls are in place and working effectively				
					Regulatory control reports from investment managers, custodian, etc are also reviewed by audit.				
					Due diligence is carried out when a new Fund Manager is appointed.				
					Verification process in place within Pensions section, ongoing staff training undertaken.				

Financial Consequences	Moderate			Provision of training			
		Strategic Investment advice from Independent Advisors					
		Consultation with Peer Groups					
		In the short-term advice can be sought					
		Altair configured based on processes which are aligned to legislation ensuring compliance					
		iConnect allows verification of records from ORACLE to Altair					
		Working in collaboration with other funds on investment matters. Relationships formed with professional advisors, other funds and networks. These relationships allow the team to keep up to date with developments and changes to legislation and regulation as well as discussing and agreeing best practice.					
				Administration strategy sets out requirements of both employers and Administering Authority			
							









Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Failure to hold personal data securely	Data lost or compromised Reputational risk.	Insufficient security of data Inadequate data retention policy, backup and recovery procedures.	Laura C Robertson	6	Data Protection Act procedures adhered to and all staff have completed appropriate mandatory DPA training		3	3	16 Feb 2023
					Secure communications channels in place				
					System access controlled				
					Altair complies with the appropriate ISO standards require by a hosted system				
									












Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Failure to keep pension records up to date and accurate	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid Records not updated in time for McCloud remedy and underpin	Poor or non-existent notification of by employers of new starts, amendments, leavers, etc.	Laura C Robertson	9	Robust maintenance and update of Altair	✓	9	3	16 Feb 2023
					Ongoing communication with employers	⚠			
					Verification process in place within Pensions section, ongoing staff training undertaken.	⚠			
					iConnect allows verification of records from Employer Payrolls to Altair	⚠			
					Member's self-service gives members the opportunity to check and update their own records	✓			
					Administration strategy sets out requirements of both employers and Administering Authority	✓			
				⚠			⚠	✓	












Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Committee and board members have inadequate knowledge and understanding.	Detrimental decisions made in relation to the Pension Fund and management of the fund	Lack of training and continuous professional development.	Elaine Muir	8	Provision of training	✔	6	4	16 Feb 2023
					Strategic Investment advice from Independent Advisors	✔			
					Consultation with Peer Groups	✔			
					Attendance at training events	⚠			
				⚠			⚠	⚠	
Financial Consequences	Major								









Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Over reliance on key officers	If an officer leaves or falls ill knowledge gap may be difficult to fill.	Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.	Laura C Robertson	16	Sufficient staff cover arrangements	✓	6	3	16 Feb 2023
					Staff training and development and checking of work	⚠			
					Ongoing advice from investment consultants etc	✓			
					Consultation with Peer Groups	✓			
					Key officers transfer specialist knowledge to colleagues	✓			
					In the short-term advice can be sought	✓			
					Working in collaboration with other funds on investment matters. Relationships formed with professional advisors, other funds and networks. These relationships allow the team to keep up to date with developments and changes to legislation and regulation as well as discussing and agreeing best practice.	✓			
							⚠	✓	

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Failure to communicate properly with stakeholders	Scheme members not aware of their rights resulting in bad decisions Employers not aware of regulations, procedures, etc.	Lack of clear communication of policy and actions particularly with employers and scheme members	Laura C Robertson	8	Pensions website	✓	2	2	16 Feb 2023
					Regular updates for employers	✓			
					Newsletter for Pension Scheme members	✓			
					Annual Employer Forum	✓			
					Administration strategy sets out requirements of both employers and Administering Authority	✓			
				⚠			✓	✓	

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Committee and Board do not adhere to governance arrangements in place such as being quorate, Terms of Reference and appropriate Board Constitution	Meetings do not go ahead and decision making is delayed to subsequent meetings resulting in delay in implementation of any proposals or policy matters.	Non attendance could be as a result of: <ul style="list-style-type: none">• Scheduling of meetings• Other commitments of elected members• Adverse weather conditions• Illness• Lack of connectivity for virtual meetings	Elaine Muir	12	Standing Orders - As required by the Act and Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014		8	4	16 Feb 2023
					Committee Workplan				
					Virtual Meetings				
					Committee dates agreed in advance				
	The committee will not have a quorum able to meet and undertake the business scheduled to be considered at the meeting.				Pension Board Constitution				
									

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
As a result of a cyber security attack, there is a risk that data is compromised and not secure and systems do not operate	Data lost or compromised Reputational risk.	Cyber security attack could compromise the system and the data held in the system resulting in security breaches, noncompliance with legislation, potential fraud and criminal offences. Attacks could also mean the system cannot be used and as a result a service cannot be provided.	Elaine Muir	20	Maintenance of an ICT Strategy that correctly identifies and addresses the key challenges to delivering the information and technology required to support the delivery of services by Fife Council including Fife Pension Fund.		12	8	28-Feb-2022
					The strategy sets out the approach to keeping software up to date balancing the benefits of security fixes and minor upgrades against the risks of the patches impacting adversely on other elements of the Council infrastructure. The enhanced requirements for PSN compliance raise the importance of getting security fixes rolled out effectively.				
					Ensuring adequate provision is made for identified critical systems including, where necessary, secondary processing location in the case of the primary one failing and associated recovery procedures.				
					Corporate governance board has effective oversight of ICT for the Council and agrees strategic direction and policies to be applied to ensure ICT remains aligned, effective and secure including the Pension Fund.				
					IT contacts are managed and reviewed in line with industry best practice				
					The Information Governance Working Group includes senior managers from across the Council (including the Head of Finance) and is responsible for ensuring the Council's compliance in matters relating to data protection, information governance and records management. The Group will provide annual reports to the SIRO.				
					Process of gateway reviews which ensures that ICT and digital solutions are secure, sustainable, economical, and compliant to the agreed standards and regulations.				
					Administration access rights are kept to a minimum and audited on a quarterly basis to ensure only those required for a specific active purpose are in place				
					There are established processes for reporting and investigating all forms of security and Major incidents and lessons are learned from the outcomes				
					All significant proposed changes to the network, hardware and software are reviewed for potential impact on the infrastructure and to ensure there are contingency rollback options identified before they can go ahead				
					Tools are in place (including SCOM, Solarwinds) to actively monitor the Council's infrastructure with the intention of fixing issues before they become faults. Also improves understanding of where faults are so that they can be resolved quickly				
					Implement the Scottish Cyber Resilience Public Sector Action Plan. This sets out the key actions that the Scottish Government, public bodies and key partners will take to further enhance cyber resilience in Scotland's public				

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Adverse impacts to the fund's investment strategy or portfolios arising from negligence or poor service delivery under the shared services arrangement with Lothian Pension Fund.	Potential impacts identified for this risk include – Poor strategic decisions, poor investment performance of the portfolios, lack of diversity	Poor Performance of mandates Inappropriate Investment Strategy	Elaine Muir	9	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due		2	2	16 Feb 2023
					FCA Regulation of LPFI and LPF Key Persons				
					Strategic Investment advice from Independent Advisors on the JISP, and strategic advice from the fund's actuary				
					Diversified range of investment managers over different asset classes				
					Legal Agreement with LPFI limited and due diligence reviewed by Fund's legal advisers				
					Due diligence document that sets out all Investment Management arrangements with LPFI Limited and documenting the relationship with existing memorandum of understanding.				
					Conflicts of Interest Procedures/management				
					Performance monitored on an ongoing quarterly basis by Independent Advisors				
									
Financial Consequences	Major								

Risk Description	Impact	Risk Factors	Risk Owner	Original Risk Score	Internal Controls Description and Effectiveness Status		Current Risk Score	Target Risk Score	Risk Last Updated
Inflationary Increases	Potential impacts identified for this risk include – Increase in Benefits payable to members (CPI in Sept) Risk to value of and return on investments	Poor economic conditions, incorrect investment strategy. Increased costs	Elaine Muir	16	Investment Strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The strategy sets out the allocation levels across various asset policy groups and is designed to generate sufficient return to continue to pay liabilities as they fall due		6	4	16 Feb 2023
					Regular monitoring of cash flow				
					Budgetary control reports are prepared which estimate the costs and income based on trends of previous years. These provide indicative information to monitor financial management of the fund.				
					Strategic Investment advice from Independent Advisors on the JISP, and strategic advice from the fund's actuary				
					Diversified range of investment managers over different asset classes				
									
Financial Consequences	Moderate								

28th March 2023

Agenda Item No. 12

Pensions Committee Workplan

Report by: Elaine Muir, Head of Finance

Wards Affected: All

Purpose

The purpose of this report is to provide the Committee with an overview of the proposed agendas for future meetings of the Pensions Committee and the annual cycle.

Recommendation(s)

The Committee is asked to:-

- Consider and comment on the agenda planning document.

Resource Implications

There are no resource implications arising from this report.

Legal & Risk Implications

There are no direct legal implications arising from this report.

Impact Assessment

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

Consultation

None

1.0 Background

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

2.0 Workplan

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

Pension Committee Workplan 2023-24						
Report Title	Committee Dates					
	23 & 30 Jun-23	14 & 28 Sept-23	30-Oct-23	14-Dec-23	28-Mar-24	30 May & 28 Jun-24
Pension Administration Performance Monitoring Report	x	x		x	x	x
Risk Management Update	x	x		x	x	x
Fife Pension Fund- Investment Update	x	x		x	x	x
Review of Administration Strategy						x
Statement of Investment Principles	x					x
Statement of Responsible Investment Principles (update)						x
Annual Review of Shared Services Agreement					x	
Fife Pension Fund Business Plan and Budget					x	
Fife Pension Fund Annual Report and Audited Accounts		?	?			
Annual Audit Report by External Audit		?	?			
National Fraud Initiative				x		
Communication Policy				x		
Revised Funding Statement Strategy					x	
CEM Benchmarking and Cost Transparency	x				x	
Update on Annual Audit Plan and Summary of Reports	x				x	
Post Audit Review Report	x				x	
Annual Internal Audit Report	x				x	
Annual Governance Statement	x					x
Training and Development	x					x
Fife Pension Fund Draft Annual Report and Accounts	x					x
Audit Plans (Internal and External)					x	
Transfer In Criteria		x				
Actuarial Valuation		x		x	x	

- 2.2 In recognition of the need to balance the volume of business alongside the statutory deadlines for consideration of the annual report and accounts, additional meetings have been scheduled in June 2023, September 2023, and May 2024. These meetings have been scheduled to give the flexibility to manage the volume of business over two meetings. The split of agenda items across the meetings has yet to be determined.

- 2.3 A committee meeting has also been scheduled for 30th October 2023. This is a contingency arrangement should the annual accounts and audit report not be completed in time for consideration at the meeting on 28th September 2023. In this event the meeting on 28th September will be cancelled.
- 2.4 Targeted training will continue to be scheduled prior to committee meetings to provide more detailed information and training before reports are considered.

3.0 Conclusions

- 3.1 A detailed workplan for the business of the Committee has been prepared and outlines the cyclical nature of reports.

List of Appendices

1. Committee Workplan

Background Papers

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

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PENSION COMMITTEE WORKPLAN

Frequency	Agenda Items	Month
Quarterly	Pension Fund Administration Performance Monitoring Report Fife Pension Fund - Investment Update Risk Management Review	Quarterly
Bi-annual	Fife Pension Fund Budgetary Control	September June (outturn)
Annual	Audit Plans (internal and external) CEM Benchmarking and Cost Transparency Business Plan Update on Annual Audit Plan and Summary of Audit Reports issued Post Audit Review Report Draft Annual Report and Accounts Annual Internal Audit Report Annual Governance statement Training and Development Statement of Investment Principles Statement of Responsible Investment Principles Annual Audit Report and Accounts Annual Review of Shared Service Arrangement National Fraud Initiative	March March (deferred 2023) March June June June June June June June June September September December
Every 3 years	Actuarial Valuation Update Actuarial Valuation Funding Statement Strategy Investment Strategy Administration Strategy	December 2023 March 2024 March 2024 June 2024 June 2024
As required	Audit Reports (Internal) Policy Reviews Currency Hedging	