

## Pensions Committee

Committee Room 2, Floor 5, Fife House, North Street,  
Glenrothes – Blended meeting



Monday 30 September 2024 - 2.00 p.m.

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### AGENDA

Page Nos.

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST** – In terms of Section 5 of the Code of Conduct, members of the Committee are asked to declare any interest(s) in particular items on the agenda and the nature of the interest(s) at this stage.
3. **FIFE PENSION FUND - ANNUAL AUDIT REPORT AND AUDITED ACCOUNTS** - Report by the Head of Finance
  - (a) Report by the Head of Finance; 3 – 5
  - (b) Fife Pension Fund Annual Audit Report 2023-24; and 6 – 59
  - (c) Fife Pension Fund Annual Report and Accounts 2023-24 60 – 145
4. **2024/25 INTERNAL AUDIT PLAN** – Report by the Service Manager - Audit and Risk Management Services 146 – 152
5. **NATIONAL FRAUD INITIATIVE (NFI) IN SCOTLAND** – Report by the Service Manager - Audit and Risk Management Services 153 – 189

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

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

Fife House  
North Street  
Glenrothes  
Fife, KY7 5LT

23 September 2024

If telephoning, please ask for:  
Wendy MacGregor, Committee Officer, Fife House 06 (Main Building)  
Telephone: 03451 555555, ext. 442178; email: [Wendy.MacGregor@fife.gov.uk](mailto:Wendy.MacGregor@fife.gov.uk)

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## **BLENDING MEETING NOTICE**

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

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

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

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

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

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

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

30 September 2024

Agenda Item No. 3

# Fife Pension Fund - Annual Audit Report and Audited Accounts

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Report by: Elaine Muir, Head of Finance

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Wards Affected: All

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## Purpose

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This report contains the Audited Accounts for Fife Pension Fund for 2023-24, as well as the Annual Audit Report. This report also provides a brief response to the External Auditor's report to the Pensions Committee and the Controller of Audit.

## Recommendation

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

## Resource Implications

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None.

## Legal & Risk Implications

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None.

## Policy & Impact Assessment

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None.

## Consultation

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None.

## 1.0 Background

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

## 2.0 Issues

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- 2.1 Fife Pension Fund has a good record of delivering Financial Statements which the Council's External Auditor agrees give a true and fair view of the Pension Fund's financial position. This year is no exception and in overall terms the audit report is positive, particularly considering the challenging circumstances in which the Fund has operated.
- 2.2 The auditor's opinion in relation to the financial statements is unqualified and this means the auditor has concluded that the accounts give a true and fair view of the financial position of the Fife Pension Fund, its assets and liabilities, for the year ended 31 March 2024 and that the accounts have been properly prepared in accordance with relevant legislation and accounting regulations. The auditor found no material weaknesses in the accounting and internal control systems.
- 2.3 The auditor has identified no issues in relation to the Financial Statements in relation to unadjusted misstatements.
- 2.4 There are 4 brought forward recommendations of which 1 is complete and three remain ongoing and are being addressed.
- 2.5 Officers have provided responses including timeframes to the recommendations made.

## 3.0 Conclusions

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

**Report Contact**

Elaine Muir  
Head of Finance  
Fife House

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

Documents attached:

Fife Pension Fund Annual Audit Report – 2023-24

Fife Pension Fund Annual Report and Accounts 2023-24



# Fife Pension Fund

**2023/24 Annual Audit Report to the  
Members of the Pensions Committee and  
the Controller of Audit**

September 2024



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# Key messages



## Financial statements audit



<b>Audit opinion</b>	<p>We intend to report unqualified opinions within our independent auditor's report.</p> <p>Our audit work is substantially complete and there are currently no matters which would require modification of our audit report, subject to the outstanding matters detailed below:</p> <ul style="list-style-type: none"><li>• Resolution of final queries on investments, including Level 3 Investment valuation and investment transactions</li><li>• Receipt and review of outstanding returns from Investment managers</li><li>• Receipt and review of further evidence to support Contributions received</li><li>• Receipt and review of further evidence to support Pensions paid balances</li><li>• Final checks and review, including for accuracy and consistency</li><li>• Completion of our internal quality assurance processes.</li><li>• Consideration of events subsequent to the balance sheet date.</li></ul>
<b>Key audit findings</b>	<p>Fife Council, as Administering Authority, had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p> <p>Subject to the completion of the outstanding work noted above, we have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>



<b>Audit adjustments</b>	<p>The Pension Fund updated the financial statements for all the potential audit adjustments identified during the audit process.</p> <p>Two adjustments were made during this process;</p> <ol style="list-style-type: none"><li>1. Adjustment made to investment management expenses following late receipt of information.</li><li>2. Adjustment to reclassify costs associated with two bodies exiting the Fund as expenditure rather than negative income.</li></ol> <p>Neither adjustment impacted upon the Closing net assets of the scheme disclosed in the Fund Account.</p> <p>No unadjusted differences were identified.</p> <p>We also identified some disclosure and presentational adjustments during our audit, all of which have been reflected in the final set of financial statements.</p>
<b>Accounting systems and internal controls</b>	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Fund's processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we include these in this report.</p> <p>No material weaknesses or significant deficiencies were noted.</p>

## Wider scope of public audit

<p><b>Financial Management</b></p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Fife Pension Fund has effective arrangements for financial management and the use of resources.</p> <p>In 2023/24, the value of the Fund’s net assets increased to £3.659billion; an increase of £239million on 2022/23. The most significant impact on the outturn position was a favourable change in the market value of investments.</p> <p>In 2023/24 two admitted bodies exited the Fund, resulting in a reduction in the Fund’s net assets of £14.4million due to settlement with the employers.</p>
<p><b>Financial sustainability</b></p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Fund is planning effectively to continue to deliver its services and the way in which they should be delivered.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Fife Pension Fund has appropriate arrangements in place to ensure ongoing financial sustainability.</p> <p>The triennial valuation as at 31 March 2023 describes a comfortable funding position of 151%. This is a 54% improvement on the valuation as at 31 March 2020. The valuation also sets out that it is 94% likely that the Fund will be 100% funded by the next triennial valuation in 2026.</p> <p>A significant factor which has affected the funding strategy is better than expected investment returns. This has had a material positive impact on the funding position. Investments returns have been significantly above expected returns.</p>

<p><b>Vision, Leadership and Governance</b></p> <p>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Pension Board and Pensions Committee continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.</p>
<p><b>Use of Resources to Improve Outcomes</b></p> <p>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>The Fund has appropriate performance management processes in place that support the achievement of value for money in the use of resources.</p> <p>Annual investment performance to March 2024 was again stronger than in previous years, however, this remained below the annual benchmark target. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods.</p>

## Definition

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



# Introduction

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

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

## Responsibilities

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

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

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

## Auditor independence

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

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

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

## Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging

good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

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

## Openness and transparency

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

# Financial statements audit

## Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	<p>The annual report and accounts are due to be considered and approved by the Pensions Committee on 30 September 2024.</p> <p>Our independent auditor’s report is unqualified in all regards.</p>
Going concern basis of accounting	<p>When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Fund’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Fund.</p>	<p>We reviewed the financial forecasts for 2024/25. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Fund will continue to operate for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.</p>
<p>Opinions prescribed by the Accounts Commission:</p> <ul style="list-style-type: none"> <li>Management Commentary</li> </ul>	<p>We plan and perform audit procedures to gain assurance that the Management Commentary, Annual Governance Statement and the Governance Compliance Statement are prepared in accordance with:</p>	<p>We have concluded that:</p> <ul style="list-style-type: none"> <li>the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with relevant statutory guidance.</li> </ul>

Opinion	Basis for opinion	Conclusions
<ul style="list-style-type: none"> <li>Annual Governance Statement</li> <li>Governance Compliance Statement</li> </ul>	<ul style="list-style-type: none"> <li>statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary);</li> <li>the Delivering Good Governance in Local Government: Framework (Annual Governance Statement); and</li> <li>The Local Government Pension Scheme (Scotland) Regulations 2018 (Governance Compliance Statement)</li> </ul>	<ul style="list-style-type: none"> <li>the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework.</li> <li>the information given in the Governance Compliance Statement is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.</li> </ul>

Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept; or</li> <li>the financial statements are not in agreement with the accounting records; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>	We have no matters to report.
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## An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Pensions Committee in March 2024. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Fund. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our



audit plan is subject to review during the course of the audit to take account of developments that arise.

We carried out a further review of our risk assessment following receipt of the unaudited annual report and accounts. Our risk assessment remained unchanged.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. This includes:

- an evaluation of the Fund’s internal control environment, including the IT systems and controls; and
- substantive testing on significant transactions and material account balances, including procedures outlined in this report in relation to our key audit risks.

## Quality indicators

We have applied a suite of quality indicators to assess the reliability of the financial reporting and response to the audit.

Metric	Grading*	Commentary
Quality and timeliness of draft financial statements	Mature	We received the unaudited financial statements of a good standard in line with our audit timetable.
Quality of working papers provided and adherence to timetable	Mature	We received working papers of a good standard in line with our audit timetable.
Timing and quality of key accounting judgements	Mature	We did not identify any issues with the timing and quality of key accounting judgements.
Access to finance team and other key personnel	Mature	We had access to all key personnel at Fife Council. All audit queries and requests were responded to in a timely manner.
Quality and timeliness of the: <ul style="list-style-type: none"> <li>• Management Commentary</li> </ul>	Mature	We did not identify any issues with quality and timeliness of the Management Commentary, Annual Governance Statement and Governance Compliance Statement

Metric	Grading*	Commentary
<ul style="list-style-type: none"> <li>Annual Governance Statement</li> <li>Governance Compliance Statement</li> </ul> <p>As well as the quality and timeliness of supporting working papers for those statements.</p>		and the working papers to support those statements.
Volume and magnitude of identified errors	Mature	There were two adjustments and no unadjusted errors noted through the audit period. These were due to updated late information, rather than indicative of error by management. We have no additional concerns as a result of these.

\*We assess as mature / developing / significant improvement required

## Significant risk areas and key audit matters

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

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

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

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

The table below summarises the significant risk. Detail behind each risk and the work undertaken is set out on the following pages.

<b>Risk area</b>	<b>Fraud risk</b>	<b>Planned approach to controls</b>	<b>Level of judgement / estimation uncertainty</b>	<b>Outcome of work</b>
<b>Management override of controls</b>	Yes	Assess design & implementation	High	No adjustment
<b>Fraud in revenue recognition</b>	Yes	Income recognised in the Fund's accounts relates to contributions received from member bodies and transfers in from other pension funds. Given the nature of this income we rebutted this risk.		
<b>Fraud in non-pay expenditure recognition</b>	Yes	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.  We perform separate tailored testing on benefits payable and therefore rebutted this risk.		
<b>Investments valuations (key accounting estimate)</b>	No	Assess design & implementation	High	No adjustment
<b>Disclosure of present value of retirement obligations (key accounting estimate)</b>	No	Assess design & implementation	Low	No adjustment

## Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
<p><b>Significant risk description</b></p>	<p>Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and 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, the 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>Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p><b>Inherent risk of material misstatement:</b> Very High</p>
<p><b>How the scope of our audit responded to the significant risk</b></p>	<p><b>Key judgement</b></p> <p>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals.</li> <li>• Analysed the journals listing and determining criteria for selecting high risk and / or unusual journals.</li> <li>• Tested high risk and / or unusual journals posted during the year and after the unaudited financial statements stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with the Fund's journals policy.</li> <li>• Gained an understanding of the accounting estimates and critical judgements made by management. We</li> </ul>

Risk area	Management override of controls
	<p>challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud.</p> <ul style="list-style-type: none"> <li>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<b>Key observations</b>	<p>We have not identified any indication of management override of controls in the year. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.</p>

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

Key risk area	Fraud in revenue recognition
<b>Significant risk description</b>	<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed inherent risk on every audit unless it can be rebutted.</p> <p>The presumption is that the Fund could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Income recognised in the Fund's accounts relates to contributions received from member bodies and transfers in from other pension funds. Given the nature of this income we rebutted this risk.</p>

Key risk area	Fraud in non-pay expenditure
<b>Significant risk description</b>	<p>As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements.</p> <p>Expenditure recognised in the Fund's accounts relates to benefits payable, payments to and on account of leavers</p>

Key risk area	Fraud in non-pay expenditure
	<p>and management expenses. We have assessed benefits payable to be the Fund's only material expenditure stream.</p> <p>We perform separate tailored testing on benefits payable and therefore rebutted this risk.</p>

Key risk area	Investment valuations (key accounting estimate)
<p><b>Significant risk description</b></p>	<p>The Fund held investments of £3.426billion as at 31 March 2023, of which 44% (£1.517 billion) were classified as level 2 or level 3 financial instruments. These level 2 and 3 financial instruments are generally gilts and investment in infrastructure, which are more subjective in their valuation. Valuations of such investments are not based on unadjusted quoted prices in active markets, rather estimation produced by Investment Fund Managers commissioned by management as experts.</p> <p>Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error.</p> <p><b>Inherent risk of material misstatement:</b> Investments (valuation, existence): High</p>
<p><b>How the scope of our audit responded to the significant risk</b></p>	<p><b>Key judgements</b></p> <p>There is the potential for management to use their judgement to influence the values within the financial statements.</p> <p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the investment fund managers and the scope of their work.</li> <li>• Evaluated the competence, capabilities and objectivity of the investment fund managers.</li> </ul>

Key risk area	Investment valuations (key accounting estimate)
	<ul style="list-style-type: none"> <li>• Considered the basis on which the valuation is carried out and the challenge in the key assumptions applied.</li> <li>• Tested the information used by the fund managers to ensure it is complete and consistent with our understanding.</li> <li>• Ensured that the year-end valuations have been reflected correctly in the ledger and that accounting treatment within the financial statements is correct.</li> </ul>
Key observations	Subject to completion of the outstanding work, we have gained reasonable assurance over the valuation of investments at year end and are satisfied that investments and investment transactions are fairly stated in the financial statements.

Key risk area	Present Value of Retirement Obligations (key accounting estimate)
Significant risk description	<p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 26 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the Fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>There is a risk that the data and assumptions used by management's expert are not appropriate in producing their estimate of the pension obligations, which results in an increased risk of material misstatement of this disclosure.</p> <p><b>Inherent risk of material misstatement:</b></p> <p>Retirement obligations (valuation): High</p>
How the scope of our audit responded to the significant risk	<p><b>Key judgements</b></p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.</p>

Key risk area	Present Value of Retirement Obligations (key accounting estimate)
	<p><b>Audit procedures</b></p> <ul style="list-style-type: none"> <li>• Reviewed the controls in place to ensure that the data provided to the actuary is complete and accurate.</li> <li>• Considered the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.</li> <li>• Agreed the disclosures in the financial statements to information provided by the actuary.</li> </ul>
<p><b>Key observations</b></p>	<p>We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness.</p> <p>We have considered the competence, capability and objectivity of the actuary in line with the requirements of <i>ISA (UK) 500 Audit Evidence</i>. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.</p>

## Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Fund and the needs of users. We reviewed 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 any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality was £51.3 million. On receipt of the 2023/24 unaudited financial statements, we reassessed materiality and kept it at the same level as our initial assessment. We consider that our assessment has remained appropriate throughout our audit.



	<b>Materiality £million</b>
<b>Overall materiality for the financial statements</b>	51.300
<b>Performance materiality (75% of materiality)</b>	38.475
<b>Trivial threshold</b>	2.565

<b>Materiality</b>	<p>Our assessment is based on approximately 1.5% of the Fund’s net assets as disclosed in the prior year financial statements. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the Fund. As set out above, we have not considered it necessary to update this based on current year results.</p>
<b>Performance materiality</b>	<p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
<b>Trivial misstatements</b>	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

## Special materiality for dealings with members

Our initial assessment of materiality for dealing with members was £5.96million. On receipt of the 2023/24 unaudited financial statements, we reassessed materiality and kept it at the same level as our initial assessment. We consider that our assessment has remained appropriate throughout our audit.

	<b>Materiality £million</b>
<b>Dealings with members materiality</b>	5.960
<b>Performance materiality</b>	4.470
<b>Trivial threshold</b>	0.298

<b>Materiality</b>	We apply a lower materiality for dealings with members, based on the fact these transactions are significant to the Fund’s activities and it would not be appropriate to use the asset-based materiality to them. Our initial assessment is based on approximately 5% of the Fund’s Prior Year gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the Fund’s dealings with members. As set out above, we have not considered it necessary to update this based on current year results.
<b>Performance materiality</b>	Using our professional judgement, we have calculated performance materiality at approximately 75% of overall materiality.

## Audit differences

Two adjustments were made to the unaudited financial statements which are disclosed in Appendix 2.

The first adjustment was following receipt of updated information on investment management expenses. This adjustment did not impact on the reported closing net assets of the scheme.

The second adjustment was to reclassify the settlement paid to two bodies leaving the Fund in year as expenditure rather than negative income within contributions. This adjustment had a nil net impact on the Net (additions)/withdrawals from dealings with members disclosure in the Fund Account.

No unadjusted differences were identified.

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

## Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these in this report. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We did not identify any significant control weaknesses during our audit.

## Follow up of prior year recommendations

We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 3.

## Other communications

### Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	There were no significant matters on which there was disagreement with management.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	There were no significant management judgements which required additional audit work, where there was disagreement over the judgement or where the judgement is significant enough that requires reporting.
Prior year adjustments identified	There were no prior year adjustments to the financial statements identified.
Concerns identified in the following:	No concerns were identified in relation to these areas.

Area of focus	Audit findings and conclusion
<ul style="list-style-type: none"> <li>• Consultation by management with other accountants on accounting or auditing matters</li> <li>• Matters significant to the oversight of the financial reporting process</li> <li>• Adjustments / transactions identified as having been made to meet an agreed system position / target</li> </ul>	

### Accounting policies

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

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

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

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

### Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to investment valuations and pension assumptions.

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

### Fraud and suspected fraud

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

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

### Non-compliance with laws and regulations

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

We note that in line with guidance from the SPPA the Fund have reported a breach of regulations, as they have not included McCloud information on the Annual Benefit statements for 2023-24. This is not however deemed to represent a significant issue as compliance is not included in the regulations for Scotland for the current year.

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

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

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

### Written representations

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

### Related parties

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

### Confirmations from third parties



All requested third party confirmations have been received.

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

# Wider scope of public audit

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 of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.



<p><b>Financial Management</b></p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Fife Pension Fund has effective arrangements for financial management and the use of resources.</p> <p>In 2023/24, the value of the Fund’s net assets increased to £3.659billion; an increase of £239million on 2022/23. The most significant impact on the outturn position was a favourable change in the market value of investments.</p> <p>In 2023/24 two admitted bodies exited the Fund, resulting in a reduction in the Fund’s net assets of £14.4million due to settlement with the employers.</p>
<p><b>Financial sustainability</b></p> <p>Financial sustainability looks forward to the medium and</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p>

longer term to consider whether the Fund is planning effectively to continue to deliver its services and the way in which they should be delivered.

Fife Pension Fund has appropriate arrangements in place to ensure ongoing financial sustainability.

The triennial valuation as at 31 March 2023 describes a comfortable funding position of 151%. This is a 54% improvement on the valuation as at 31 March 2020. The valuation also sets out that it is 94% likely that the Fund will be 100% funded by the next triennial valuation in 2026.

A significant factor which has affected the funding strategy is better than expected investment returns. This has had a material positive impact on the funding position. Investments returns have been significantly above expected returns.

<p><b>Vision, Leadership and Governance</b></p> <p>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Pension Board and Pensions Committee continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.</p>
<p><b>Use of Resources to Improve Outcomes</b></p> <p>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.</p>	<p><b>Auditor judgement</b></p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>The Fund has appropriate performance management processes in place that support the achievement of value for money in the use of resources.</p> <p>Annual investment performance to March 2024 was again stronger than in previous years, however, this remained below the annual benchmark target. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods.</p>



## Financial management

The Fund has experienced a change in value of £239.073million represented by an increase in capital value of investments of £203.867million (2022-23 loss £157.042million) coupled with income from dividends and interest of £55.123million (£45.286million 2022-23). The Fund experienced a net deficit of £2.914million (2022-23 surplus £18.610million) from dealings with members. The movement is a result of exit credits which were paid to two employers who ceased participation in the scheme.

<b>Exhibit 1 – Financial position</b>	<b>£'million</b>
<b>2022/23 Net Assets</b>	<b>3,420.129</b>
<b>Movement:</b>	
Net deficit from dealings with members	(2.914)
Management expenses	(16.524)
Income from dividends and interest	55.123
Taxes on income	(0.479)
Gain on capital value of investments	203.867
<b>2023/24 Net Assets</b>	<b>3,659.202</b>
<b>Movement (%)</b>	<b>1.07%</b>

Source: Fife Pension Fund Annual Report & Accounts 2023-24

The Fund's Investment Strategy was revised and updated to reflect the results of the actuarial valuation in 2023. This was approved at the Pensions Committee in March 2024. Throughout 2023-24, the Fund undertook some changes to the investment allocation as it continues to make steady progress on the implementation of the agreed investment strategy. Over the course of the financial year the Fund disinvested £85million from Equities, with the proceeds being invested in Sovereigns (formerly LDI). The Fund increased Sovereigns allocation aligned to the Fund's Investment Strategy.

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

## Exhibit 2 – Fife Pension Fund Investment Strategy

	<b>Previous Strategy</b> <b>(Sept 2022)</b> %	<b>Revised Strategy</b> <b>(March 24)</b> %	<b>Permitted Range</b>	<b>Actual allocation</b> <b>31 March 2024</b> %
Equities	50	50	40-60	49.2
Real Assets	20	20	10-30	21.7
Credit	15	13	5-25	13.3
Sovereigns (Formerly LDI)	15	15	5-25	14.2
Cash	0	2	0-15	1.6
<b>Total</b>	<b>100</b>	<b>100</b>		<b>100</b>

Performance of the Fund for 2023/24 resulted in a net increase in asset value of £239.073million with the Fund underperforming against its benchmark of 10.9% by - 3.7% over a rolling 12-month period.

Longer term returns over 3 and 5 years and from inception demonstrate that the Fund has outperformed its benchmark over longer time periods.

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

### Exhibit 3: Investment markets

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

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

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

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

Source: Fife Pension Fund Annual Report & Accounts 2023-24; Investment Commentary as provided by LPFI Ltd.

## Financial monitoring

The 2023/24 indicative budget and business plan was approved by the Pensions Committee in March 2023. The budget showed a net decrease of £0.4million from dealings with members and a net return on investments of £152.96million, resulting in a projected net increase in the value of the Fund of £154.68million.

As at 30 September 2023, the 2023/24 projected outturn was that the Fund would remain cash-flow positive with a net increase to the Fund of £1.794million from dealings with members and a net decrease on investments of £39.111million, resulting in a projected net decrease in the value of the Fund of £30.454million.

The financial outturn for the year showed a net increase in the value of the Fund of £239.073million. The most significant impact on the outturn position was due to the changes in market value of investments, although there was also a significant reduction in Net additions / (withdrawals) from dealing with members as a result of two admitted bodies exiting the Fund in year. (Exhibit 4).

### Exhibit 4 – Financial Outturn

	2023-24 Budget	2023-24 Outturn	2023-24 Variance favourable / (adverse)
	£million	£million	£million
2022/23 Net Assets	3,420.129	3,420.129	-
<b>Movement:</b>			
Net additions / (withdrawals) from dealing with members	18.220	(2.914)	(21.134)
Management expenses	(13.98)	(7.165)	6.815
Income from dividends and interest	26.090	55.123	29.033
Taxes on income	(0.230)	(0.479)	(0.249)
Profit / (Loss) in capital value of investments	127.100	197.457	70.357
<b>Net increase / (decrease) in the Fund</b>	<b>154.680</b>	<b>239.073</b>	<b>84.393</b>
<b>2023/24 Net Assets</b>	<b>3,574.809</b>	<b>3,659.202</b>	<b>84.393</b>

## Bodies exiting the Fund

There were two admitted bodies that exited the Fund in the financial year. These were Fife Housing Association and St Andrews Links Trust. The cash outflows to these bodies upon exiting the fund were £2.6million and £11.8million respectively. The Actuary, Hymans Robertson provided valuations for each body. The outflow was significant, however is representative of the share of the Fund attributable to those employers, meaning the overall funding position as per above remains at 151%. This is a very strong position for the Fund as a whole.

## Actuarial valuation

The present value of the retirement obligations is presented as a note to the financial statements. The liabilities have been projected using a roll forward from the latest formal fund triennial valuation at 31 March 2023, with no allowance for future unfunded benefits. This movement in the present value of retirement obligations is shown in Exhibit 5.

Exhibit 5 – Actuarial valuation

	<b>Present Value of Retirement Benefits</b>
<b>2023/24 (£billion)</b>	2.955
<b>2022/23 (£billion)</b>	2.701
<b>Movement (%)</b>	9%

Source: Fife Pension Fund Annual Report & Accounts 2023-24

## Systems of internal control

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

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

## Prevention and detection of fraud and irregularity

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

## Financial sustainability

### Funding strategy

The primary objective of the Fund is to ensure sufficient funding in the long term so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due. The Funding Strategy Statement expresses the funding objective, which informs the investment strategy. The Funding Strategy Statement is reviewed at least triennially, the latest of which was within 2023-24.

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

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

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

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

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

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

Officers of the council continue to implement the investment strategy and participate in Joint Investment Forum collaborative arrangement with Lothian Pension Fund and two independent advisors.

### Indicative budget for 2024/25

An indicative budget has been developed for 2024/25 (Exhibit 6). The budget was developed using previous years trends of expenditure which have been adjusted to reflect the estimated levels of pay awards and estimated levels of pension increases. The return on investments were set at levels as per the 2023/24 indicative budget.

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

**Exhibit 6: 2024/25 Indicative Budget**

**2024/25 Budget**

	£'million
<b>2023/24 Net Assets</b>	<b>3,501.959</b>
Movement:	
Net additions/ (withdrawals) from dealing with members	9.720
Management expenses	(17.960)
Income from dividends and interest	48.000
Taxes on income	(0.260)
Profit / (Loss) in capital value of investments	123.100
Net increase / (decrease) in the Fund	<b>162.600</b>
<b>2024/25 Net Assets</b>	<b>3,664.559</b>

Source: Fife Pension Fund – Business Plan 2024-25

## Actuarial funding levels

The triennial valuation as at 31 March 2023 was finalised in March 2024. The results of the valuation concluded that Fife Pension Fund was 151% funded which was an increase from the previous triennial valuation in 2020, which assessed the fund as being 97% funded. The increase in the funding level is due, in the main, to the increased return on assets held. Additionally, the 2020 valuation was impacted by the wider implications of, COVID-19.

The required investment return for Fife Pension Fund to be 100% funded is 2.8% per annum (3.2% per annum based on the 2020 triennial valuation). The likelihood of the Fund's investment strategy achieving the required return is assessed at 94% (68% in 2020).

The primary contribution rates as per the triennial valuation have decreased from 25.6% to 22.1% due to a combination of higher prudence in funding plans and higher future inflation expectations for 2023, compared to 2020. Secondary rates have also reduced due to strong investment performance since the last valuation.

## Vision, Leadership and governance

### Strategy and business model

The Pension Fund's Funding Strategy Statement explains that the fund has a long-term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due. The health of the Fund is monitored every three years by means of review by an independent actuary.

The funding objectives for the Fund are documented in the Committee's Funding Strategy Statement, which is reviewed at least triennially. The funding objectives, together with the rates of return being targeted and levels of risk to be tolerated, are central to the Fund's investment strategy and governs the allocation across various policy groups.

The investment objectives of the Fund are to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives as outlined in the Funding Strategy Statement. The implementation of the strategy is carried out by the Head of Finance. The Head of Finance operates within the parameters agreed by the Pensions Committee.

The Fund prepares a business plan which sets out all of the business as usual activity as well as some of the less routine development activities. The Fund will be involved in a procurement exercise for Custody and Performance measurement contracts and will look to work with its collaborative partners so that resources and expertise can be pooled and explore synergies and any efficiencies that may be possible.

### Governance arrangements

Fife Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in Fife. The main functions of the Administering Authority are the management and investment of the assets of the Fund and administration of 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 Forum (JIF).
- Finance & Corporate Services Directorate and the Pensions Governance Group (PGG)



In recognition of the challenges ahead, and its commitment to strong governance arrangements, Fife Council as Administering Authority, has developed a senior officer role, reporting to the Head of Finance but with the responsibility for leading and managing the Fife Pension Fund and to deliver consistent, high quality service and raise standards in key pension fund areas. The addition of the Pension Service Manager role will ensure that the Fund is in a strong position to deal with future challenges and ensure that the pension fund is managed effectively, while continuing to protect members' interest.

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

Fife Pension Fund works in collaboration with City of Edinburgh Council for the provision of investment advisory services from its arms-length organisation LPFI Limited, the investment services company owned by Lothian Pension Fund. This is the fifth year of collaboration, and officers have continued to participate in the Joint Investment Forum (JIF), formerly known as the Joint Investment Strategy Panel (JISP). Strategic investment advisory services are provided by LPFI Limited and, two independent investment advisors. They provide direct advice to the Head of Finance and also provide training for Committee and Board members from time to time.

The relationship with LPFI Limited continued to expand to increase the use of LPFI's internal investment management capabilities with LPFI Limited now acting as a Fund Manager for some of the investment portfolios.

The Pensions Governance Group (PGG) is an officer's group, chaired by the Head of Finance, which meets quarterly, and its purpose is to provide assurance to the Committee and the Board through the monitoring of the requirements measured by the Pensions Regulator's Code of Practice No.14 and reviewing and managing risk. The work of the PGG will now incorporate assessing and monitoring the requirements of the new Pension Regulators General (single) Code of practice including preparing a gap analysis and action plan for moving towards compliance. A risk Register is maintained by the PGG with quarterly updates presented to the Pensions Committee.

## Meetings with those charged with governance

Throughout 2023/24, the Fund has maintained all aspects of fund governance including its regular schedule of meetings.

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

## Governance compliance

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

In its 2023/24 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 Committee have complied with the policy and completed the minimum time requirement as per their policy.

The Fund's Training Policy (Comprising a compulsory training seminar for all new trustees and a requirement to undertake no less than two days (14 hours) of training in each year for all Pensions Committee and Pension Board members) provides the knowledge to enable them to evaluate and challenge the advice they receive. Training of members of the Pensions Committee and the Pensions Board are monitored and reported on a regular basis.

## Internal Audit

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

During 2023-24 the following assurance reviews were undertaken:

- Follow up review (Cyber Security)
- Investment Governance
- Governance
- Post Audit Reviews

The annual internal audit report was presented to the Pension Committee in June 2024. This report confirmed that the annual programme of internal audit work had been completed and that "reasonable assurance can be placed upon the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control for the year to 31 March 2024.

## Use of resources to improve outcomes

### Monitoring investment performance

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

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

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

### Fund Performance

#### Fife Pension Fund annual performance

Annual performance to March 2024 was stronger than in the previous year, with overall annual returns of 7.2% (2023 - 3.6%). Performance was below the 2024 benchmark of 10.9%. Longer term returns over 3 and 5 years demonstrate that the Fund has outperformed its benchmark over longer time periods. The Fund's performance against benchmarks and prior year are given at Exhibit 7.

Exhibit 7: Performance of the Fund against benchmark and prior year

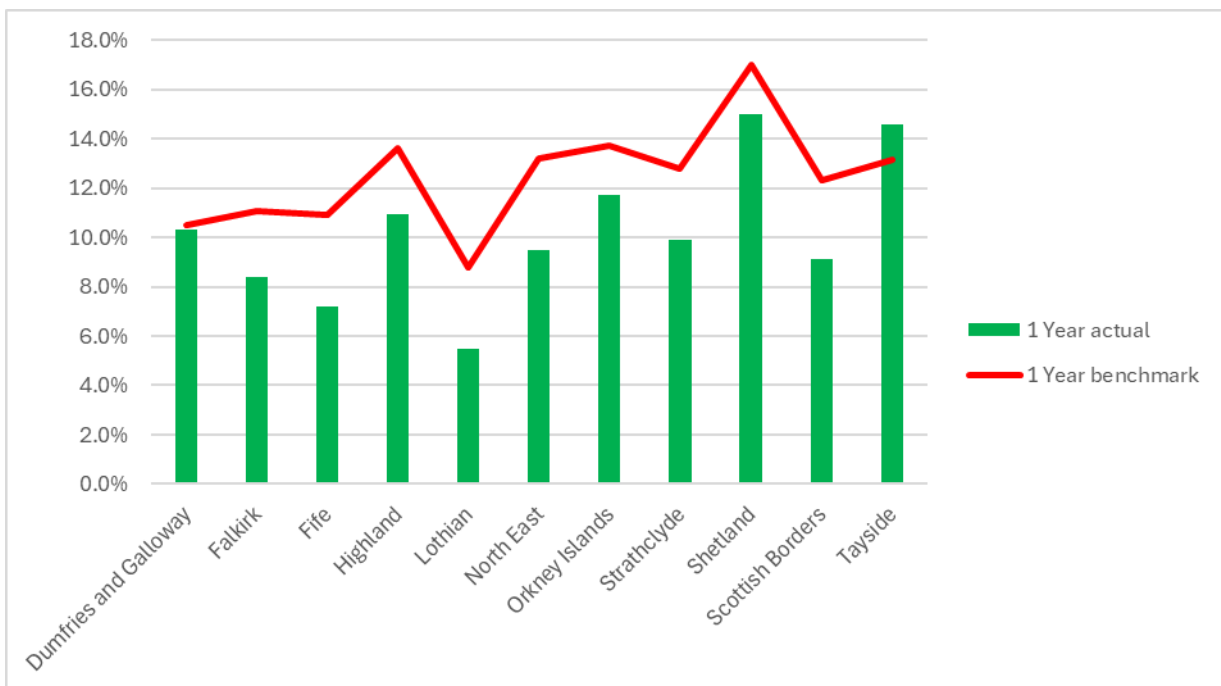


Source: Fife Pension Fund Annual Report & Accounts 2023/24

### Annual returns comparison

The Fund reported the second lowest annual return in Scotland in 2024 and like most of the LGPS' in Scotland, it did not meet its annual benchmark target. See Exhibit 8 for Fife Pension Fund's annual performance against other Scottish LGPS.

Exhibit 8: Annual return across LGPS Scotland Funds against benchmark

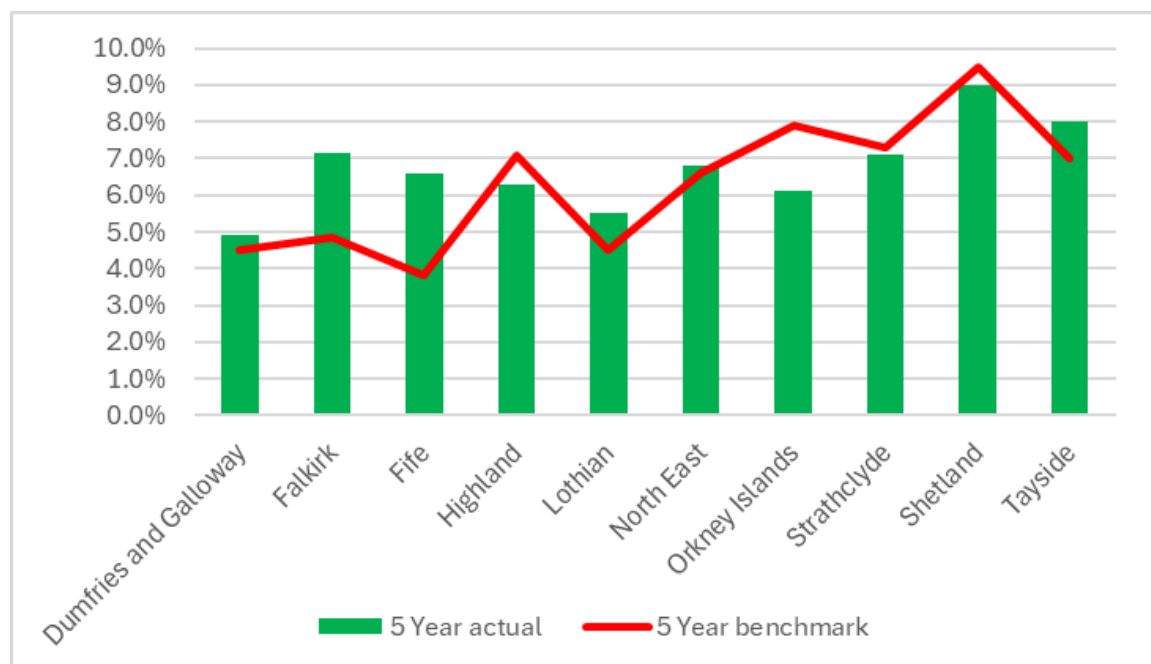


Source: Unaudited Annual Report and Accounts for LGPS Funds

### 5 Year returns Comparison

Comparison of the Fund's performance against other Scottish LFPS Schemes is shown in Exhibit 9. Compared to the other LGPS, was the fifth highest in terms of absolute returns in the 5 year period. However, like the majority of the LGPS' in Scotland, Fife Pension Fund exceeded its benchmark.

Exhibit 9: Annualised 5 year returns across LGPS Scotland Funds against Benchmark<sup>2</sup>



Source: Unaudited Annual Report and Accounts for LGPS Funds

### Management Expenses

The Fund reported management expenses of £16.5million in 2023/24, a decrease of £1.0million on the prior year. Management expenses are split into three main categories: administrative costs; investment management expenses and oversight and governance costs. Investment management expenses account for 82% of total management expenses.

The Fund’s investment management expenses (excluding indirect expenses), as a proportion of net assets, decreased in comparison with the prior year.

To demonstrate its continued commitment to ensuring value for money, the Fund also took part in CEM Benchmarking exercise for 2022-23 and the results were reported to Committee in June 2024. The results demonstrated that the Fund investment costs were slightly below other funds. Although having an aggregate higher cost implementation style, this was offset by paying less than peers for similar assets. The results also demonstrated a net 5-year return above the LGPS median.

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

The Fund undertakes an annual benchmarking exercise using externally provided data, covering 45 funds including 6 LGPS funds. Analysis of investment costs is carried out by an independent provider, CEM Benchmarking Inc.

From the CEM report, there were several key takeaways. These are as follows:

- Fife Pension Fund had a higher cost implementation style in aggregate.
- Fife Pension Fund paid less than peers for similar asset types in aggregate.
- The 5-year net total return was 6.6% for Fife Pension Fund, this is higher than the LGPS median of 6.4%.
- Fife Pension Fund’s strategic asset allocation shows that it takes less risks relative to its liabilities in comparison to other LGPS funds.
- The Fund’s 5-year net value added was 2.1%, this is higher than the LGPS median of 0.9%.
- Fife Pension Fund’s cumulative 5-year net value added has added £332million to the funding of its plan.

## Administration performance

The Fund has an Administration Strategy and suite of key performance indicators (KPIs) which are reported to the Pensions Committee on a quarterly basis. In 2023/24 a further three key processes were reported on a routine basis. Results of performance against KPI targets in 2023/24 are shown below in Exhibit 10.

Exhibit 10: Key Performance Indicators 2023/24

Membership Transactions	Target Days	Target	Within Target
Correspondence	10	90%	100%
Refunds	10	100%	95%
New Members	30	100%	100%
Provide Ill Health estimates	15	90%	36%
Provide Redundancy Estimates	12	97%	80%
Retirals	7	95%	85%
Transfer in	10	90%	20%

Transfer out	10	90%	36%
Death Grants	7	90%	85%
Divorce Settlements	10	90%	65%

Source: Fife Pension Fund Annual Report & Accounts 2023-24

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

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## Appendix 1: Responsibilities of the Fund and Auditor

### Responsibilities of the Fund

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

Area	Fund responsibilities
<p><b>Corporate governance</b></p>	<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>
<p><b>Financial statements and related reports</b></p>	<p>The Fund has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of the financial position of the Fund and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures;</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. The management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of the Fund.</li> </ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the Fund and its financial performance, including providing adequate disclosures in accordance with the applicable financial 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>
<p><b>Standards of conduct for prevention and detection of fraud and error</b></p>	<p>The Fund is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p><b>Financial position</b></p>	<p>The Fund is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>

## Auditor responsibilities

### Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

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

### Our responsibilities

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

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

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

### Wider scope audit work

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

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

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## Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

### Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

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## Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

### Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

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## Vision, leadership and governance



Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

### Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

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## Use of resources to improve outcomes



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

### Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

## Best Value

The administering authority (Fife Council) has responsibility for ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a statutory duty to make arrangements to secure Best Value, which are subject to audit.

The outcome of audit work on the administering authority's Best Value arrangements is reported in the Fife Council annual audit report. There are no findings directly applicable to the Fund.

## 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 [Quality of public audit in Scotland: Annual report 2023/24](#)

## Independence

The Ethical Standards and ISA (UK) 260 require us to give the Fund full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we note the following matter to bring to the Fund's attention:

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard.

In particular:

- Non-audit services: There are no non-audit services provided to the Fund.
- Contingent fees: No contingent fee arrangements are in place for any services provided.
- Gifts and hospitality: We have not identified any gifts or hospitality provided to, or received from, any member of the Fund, senior management or staff.
- Relationships: we have no relationships with the Fund, its members, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a

director, or in a senior management role covering financial, accounting or control related areas.

Our period of total uninterrupted appointment as at the end of 31 March 2024 was two years.

## Audit and non-audit services

The total fees charged to the Fund for the provision of services in 2023/24 were as follows. Prior year charges for the predecessor auditor are also shown for comparative purposes:

	2023/24	2022/23
Auditor remuneration	£63,940	£60,915
Pooled costs	£2,200	£-
Audit support costs	-	£2,160
Sectoral cap adjustment	(£17,770)	(£16,850)
Total fee	£48,370	£46,225

There have been no non-audit fees charged to the Fund by Azets during the year. The audit fees charged reconcile to the fees disclosed in the financial statements.

## Appendix 2: Audit differences identified during the audit

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

### Adjusted misstatements

Details of the items corrected following discussions with management are as below.

No	Detail	Fund Account		Net Asset Statement	
		Dr £m	(Cr) £m	Dr £m	(Cr) £m
1.	Being adjustment to investment management expenses following receipt of updated information provided by the fund managers.				
	DR Management Expenses	6.4			
	CR Return on investments		(6.4)		
2.	to classify two bodies leaving the Fund as expenditure rather than negative income. This does not affect the bottom line of the Fund account				
	DR Payments to and on account of leavers	14.4			
	CR Contributions Receivable		(14.4)		
Net impact on net assets					-

### Unadjusted misstatements

We identified no unadjusted misstatements during our audit.

## Misclassification and disclosure changes

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

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

No	Detail
1.	Note 11a (Reconciliation of movements in investments and derivatives)  The narrative at the foot of the note was updated to reflect the adjustment in investment management expenses.

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



## Appendix 3: Follow up of prior year recommendations

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

1. Working papers in preparation of the annual accounts	
<b>Recommendation</b>	We would encourage management to request and challenge all information provided by Northern Trust which is required in the preparation of the annual report and accounts.
<b>Implementation date</b>	<b>30 June 2024</b>
<b>Complete</b>	Information provided by Northern Trust has been challenged appropriately.

2. Assurance Reports on Controls at a Service Organisation	
<b>Recommendation</b>	We would encourage management to obtain and review the internal control report and associated audit report as it relates to Heywood Pension Technologies and the provision of the Altair pension administration software platform.
<b>Implementation date</b>	<b>31 March 2024</b>
<b>Ongoing</b>	This is not actioned yet.

3. Administration Costs	
<b>Recommendation</b>	Consider the inclusion of unit costs for administration in budget monitoring and administration reports.
<b>Implementation date</b>	<b>31 March 2024</b>
<b>Ongoing</b>	Management has continued to consider the inclusion of unit costs for administration, however this has not yet been actioned.  <b>Revised Implementation date: 31 March 2025.</b>

<b>4. Service organisation control reports and complementary user entity controls</b>	
<b>Recommendation</b>	Include the review of service organisation control reports and complementary user entity controls specified by the custodian as part of the governance assurance framework.
<b>Implementation date</b>	<b>31 March 2024</b>
<b>Ongoing</b>	<p>A review of service organisation control reports has been included in the 2023/24 annual report and accounts.</p> <p>Audit observation: As in 2022/23 we noted that LPFI do not currently commission and publish a service internal control report as prepared by an independent reporting accountant. In 2023/24, the Fund received a controls letter from LPFI as alternative assurance to a controls report. We continue to encourage the Fund to obtain from LPFI an internal control report.</p> <p><b>Revised Implementation date: 31 March 2025.</b></p>

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**Fife  
Pension Fund**

Administered by Fife Council

# Fife Pension Fund Annual Report & Accounts 2023-24





## Fife Pension Fund Annual Report & Accounts 2023-24

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## MANAGEMENT COMMENTARY

### Introduction

Welcome to the Annual Report and Accounts for the 2023-24 Local Government Pension Scheme (LGPS) administered by Fife Council. The report is intended to keep members, employers, pensioners and other interested stakeholders informed about the management and performance of the Pension Fund.

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

### Strategy and Business Model

The Fife Pension Fund (the Fund) has a long-term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due. This is explained in the Funding Strategy Statement that can be accessed at [Funding Strategy Statement 2024 | Fife Pension Fund](#). The health of the Fund is monitored every three years by means of review by an independent actuary (see Triennial Review, page 29).

### Principal Risks and Uncertainty

There are two main sources of uncertainty that affect whether the Fund holds sufficient funds to pay future pension; the cost of future pensions and the value of investments, this risk is of increased significance given the recent market fluctuations experienced as a result of rising inflation and the global impact of the geopolitical situation in Europe. The risk of failing to make adequate provision for the future is managed by having an independent actuary value the liabilities of the Fund every three years and set contribution rates (see Actuarial Statement on page 29). The risk of losing money on investments is managed by having an independent investment adviser review the Fund's investment strategy periodically and by diversifying assets by dividing them between several separate investment management firms, chosen to ensure a range of investment styles as set out in the Investment Management Arrangements section of this report (see page 4). The principal risks facing the Fund are described in more detail in the Statement of Investment Principles (Appendix 1).

### Overview of Fund Business

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

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

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

A list of employers who contribute to the Fund as either scheduled or admitted bodies, can be found in the 'Membership of the Fund' section of this report (see page 59).

## Review of the Year

### Key Facts and Figures

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

Financial Highlights	2023-24 £m	2022-23 £m	Change £m
Value of Fund	3,659,202	3,420,129	239.073
Operational (Surplus)/Deficit	(239.073)	111.189	(350.262)
Employers Contributed	(102.964)	(94.726)	(8.238)
Employees Contributed	(25.081)	(23.270)	(1.811)
Pensions and Other Benefits Paid out	112.555	98.974	13.581
Transfer values paid in	(2.288)	(1.867)	(0.421)
Transfer values paid out	4.651	2.310	2.341
Net (additions)/withdrawals from dealings with members	2.914	(18.610)	21.524

**Table 2 Investment Highlights**

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

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

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

The Transaction costs for 2023-24 are reported as £1.778m (2022-23 £2.094m), these reflect the cost to the Fund of dealing in the underlying investments in order to achieve its objectives.

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

To demonstrate its continued commitment to ensuring value for money, the Fund also took part in CEM Benchmarking exercise for 2022-23 and the results were reported to Committee in June 2024. The results demonstrated that the Fund Investment Costs were slightly below other funds. Although having an aggregate higher cost implementation style, this was offset by paying less than peers for similar assets. The results also demonstrated a net 5-year return above the LGPS median.



## Investment Management Arrangements

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

The Statement of Investment Principles (SIP) (Appendix 1) and the Fund's Funding Strategy Statement give more information on the Fund's investment framework and the investment principles that the Fund adopts.

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

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

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

The terms of reference and construct of the JIF were revised in 2023-24 to reflect the evolving relationship between the Funds and to manage any conflicts of interest. The revised arrangements are documented in the Annual Governance statement.

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

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

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

**Table 3 Investment Strategy**

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

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

## Responsible Investment Activities

The Statement of Responsible Investment Principles (SRIP) sets out to clarify the Fund's agreed approach to Responsible Investment. The statement will also be used as a guide for investment decision making.

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

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

### Climate Change – Monitoring and Metrics

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

**Table 4 – Measure of Carbon Efficiency**

Fund Assets/Benchmark	2020 Weighted Average Carbon Intensity (tons CO2/\$M sales)	2021 Weighted Average Carbon Intensity (tons CO2/\$M sales)	2022 Weighted Average Carbon Intensity (tons CO2/\$M sales)	2023 Weighted Average Carbon Intensity (tons CO2/\$M sales)	2024 Weighted Average Carbon Intensity (tons CO2/\$M sales)	Year on Year Change
Fife Equities	187	169	187	187	150	-19.4%
MSCI ACWI (Global Equities)	178	155	151	156	122	-21.5 %
Fife Equities & Corporate Bonds		164	176	169	141	-16.7%
Fife Sovereigns *				132	132	0.0%

Source: MSCI

\*Data collected for last two years only.

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

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

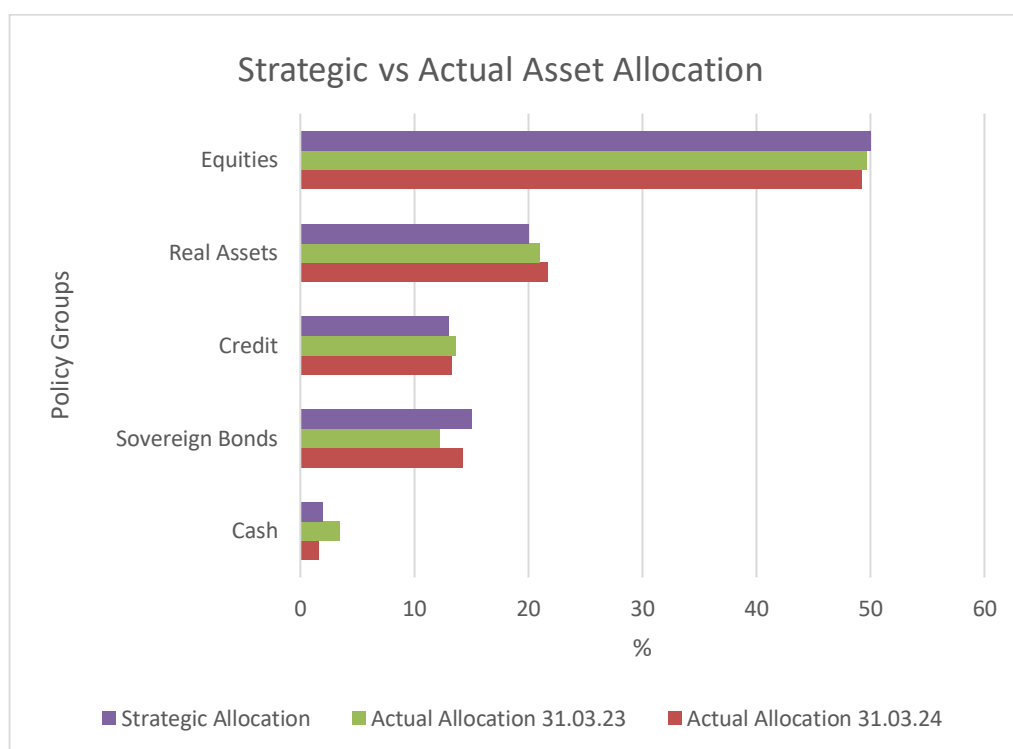
Carbon intensity numbers are treated as an output of the investment process rather than targeted inputs into the investment process. It is anticipated that global decarbonisation will reduce the average carbon intensity of investments over time.

### Implementation of Investment Strategy and Investment Performance

The value of the Fund’s net assets increased to £3,659m.

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

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



Throughout 2023-24, the Fund undertook some changes to the investment allocation as it continued to make steady progress on the implementation of the agreed investment strategy. Over the course of the financial year the Fund disinvested £85m from Equities, with the proceeds being invested in Sovereigns (formerly LDI) . The Fund increased Sovereigns allocation aligned to the agreed investment strategy.

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

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

The cash balance at 31 March 2024 was £58m (1.6% of Fund Assets).

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

**Table 5 Asset Allocation per Policy Group**

Policy Group	Manager	Current Allocation (£m)	Current Allocation (%)	Target Allocation (%)	Difference (%)
<b>Equities</b>		<b>1,802</b>	<b>49.2%</b>	<b>50%</b>	<b>-0.8%</b>
	Blackrock	509			
	Baillie Gifford	280			
	LPFI GLOVE	243			
	State Street	625			
	LPFI Global HD	145			
<b>Other Real Assets</b>		<b>795</b>	<b>21.7%</b>	<b>20%</b>	<b>1.7%</b>
	CBRE Property	218			

	Infrastructure (Partners, various)	577			
<b>Credit</b>		<b>487</b>	<b>13.3%</b>	<b>13%</b>	<b>0.3%</b>
	Janus Henderson Corporates	87			
	Western Asset Corporates	87			
	LGIM 6A Corporate Bonds	91			
	LGIM 5YR+ US Index-linked	160			
	Private Debt	62			
<b>Sovereign</b>		<b>518</b>	<b>14.2%</b>	<b>15%</b>	<b>-0.8%</b>
	Janus Henderson Gilts	133			
	LPFI Gilts	385			
<b>Cash</b>		<b>58</b>	<b>1.6%</b>	<b>2%</b>	<b>-0.4%</b>
<b>Total Fund</b>		<b>3,660</b>	<b>100%</b>	<b>100%</b>	

Source: Northern Trust

Performance of the Fund for 2023-24 resulted in a net increase in asset value of £239.073m with the Fund underperforming against its benchmark of 10.9% by -3.7% over a rolling 12-month period.

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

**Table 6 Fund Performance**

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

Source: Northern Trust

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

## Investment Trends and Influences

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

## The Pensions Administration Team

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

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

The administration function covers a range of activities including: -

- processing and payment of member benefits

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

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

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

## **Service Delivery Developments**

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

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

## **Training and Development**

The team developed a comprehensive induction programme for new team members.

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

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

External training sessions attended by team members included: -

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

## **Statutory Framework of the LGPS**

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

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

## **Processes and Procedures**

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

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

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

## Fund Policies

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

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

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

## Performance Standards

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

In 2023-24 a further 3 key processes were reported on a routine basis, these being Transfers Out, Death Grants and Divorce Settlements Results of performance against KPI targets in 2023-24 are shown below: -

**Table 7 Key Performance Indicators 2023-24**

Membership Transactions	Target Days	Target	Within Target (average)	2022-23 Within Target (average)
Correspondence	10	90%	100%	100%
Refunds	10	100%	95%	87%
New Members	30	100%	100%	99%
Provide Ill Health Estimates	15	90%	36%	25%
Provide Redundancy Estimates	12	97%	80%	100%
Retirals	7	95%	85%	94%
Transfer in	10	90%	20%	36%
Transfers Out	10	90%	36%	N/A
Deaths Grants	7	90%	85%	N/A
Divorce Settlements	10	90%	65%	N/A

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

## Statutory Annual Benefit Statements

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

**Table 8 : Member Self Service Statistics**

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

continue in 2024.

The promotion of MSS will

## Triennial Valuation

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

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

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

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

## Use of Information Technology

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

## Communications

The Fund is required to have a formal written communications statement which can be viewed at Appendix 2 and also at [Fife Pension Fund Communication Policy | Fife Pension Fund](#). Effective communication is vital to ensure both members and employers are aware of the benefits of the LGPS and are also kept up to date with scheme changes.

Fife Pension Fund's website is developed and maintained by Hymans Robertson. The team continues to update the site to ensure scheme information and literature are readily available. News articles, ranging from Fund specific information to bulletins highlighting general pension issues, are available on the website. The team is also receiving assistance from colleagues from the Council's Business Management Innovation Unit to improve the site's functionality and accessibility. The Team updates the website with scheme information, guides and news articles such as the McCloud remedy.

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

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

## Working with Scheme Employers

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

## Collaborative Working

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

## Key Legislative Changes

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

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

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

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

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

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

- **Pensions Dashboards**

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

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

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

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

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

### **Other changes introduced by these amendment regulations:**

- Only the whole fund valuation will be required at each triennial valuation, with the cessation basis removed. The requirement to specify the amount of an employer's liabilities in the Rates and Adjustments certificate (on any basis) has also been removed.
- Employers proposing to exit the Scheme may request an indicative actuarial termination assessment. Administering authorities must obtain this unless the employer previously requested



one within the last 12 months. The indicative assessment is calculated at a specific date. If the employer exits, the indicative assessment must, for up to 90 days from that specific date, be used instead of any assessment calculated at the exit date.

## Other Key Regulatory and Legislative Issues

- **Public Service Pensions Indexation**

The UK Government approved the rate of increase for all public sector pension schemes and state scheme benefits at 10.1% effective from 10 April 2023. The increase was set by reference to the annual change in the Consumer Price Index measured as at September 2022.

- **Pension Scams**

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

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

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

- **National Fraud Initiative**

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

- **Tell Us Once (TUO)**

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

- **Data Quality**

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

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

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

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

The percentages have improved since 2022.

Data Quality Measure	2021	2022	2023

Common	98.2%	97.9%	98.3%
Conditional	97.2%	97%	97.6%

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

### Internal Dispute Resolution Cases

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

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

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

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

### Appeals Against Employer Decisions in 2023-24

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

### Fund Update

Membership details are shown below:-

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

The Fund invested and administered pensions on behalf of 18 current and former employers during 2023-24. These include scheduled bodies, brought into the Fund by legislation, and admitted bodies which chose to join the Fund. The detailed listing of employers is contained on page 59 of the Annual Report and Accounts for the Funds. Two employers left the scheme in 2023-24.

### Future Years

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

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

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

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

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

Pensions Dashboards will bring a further significant change to the Fund. These are digital services such as apps or websites, which savers will be able to use to see their pension information in one place. A saver will use the dashboard to search the records of all pension schemes to confirm whether or not they are a member. Dashboards aim to help savers plan for their retirement and as a public service scheme, the Fund will be required to connect with dashboards by 31 October 2025. This will involve preparation, cleansing of data and working with software suppliers in the coming year.

In recognition of the challenges ahead, and its commitment to strong governance arrangements, Fife Council as Administering Authority, has developed a senior officer role, reporting to the Head of Finance but with the responsibility for leading and managing the Fife Pension Fund and to deliver consistent, high quality service and raise standards in key pension fund areas. The addition of the Pension Service Manager role will ensure that the Fund is in a strong position to deal with future challenges and ensure that the pension fund is managed effectively, while continuing to protect members' interests.

## **Acknowledgements**

We would like to thank both the Pension Committee and Pension Board members and officers of the Council for all of their work during 2023-24. The production of the accounts is very much a team effort and again the unaudited accounts were completed before the 30 June deadline which is a huge achievement.

Ken Gourlay  
Chief Executive

Eileen Rowand MBA CPFA  
Executive Director Finance and Corporate Services

Councillor Dave Dempsey  
Convener of Pensions Committee

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

### **Roles and Responsibilities**

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

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

Fife Council carries out its role as Administering Authority via

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

### **Scope of Responsibility**

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

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

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

The PGG is an officer's group, chaired by the Head of Finance, which meets quarterly, and its purpose is to provide assurance to the Committee and the Board through the monitoring of the requirements measured by the Pensions Regulator's Code of Practice No. 14 and reviewing and managing risk. The work of the PGG will now incorporate assessing and monitoring the requirements of the new Pension Regulators General (single) Code of practice including preparing a gap analysis and action plan for moving towards compliance.

### **Governance Framework**

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

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

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

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

- Adherence to the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation of key documents including a Statement of Investment Principles

(SIP) and a Funding Strategy Statement, which can be viewed at [Statement of Investment Principles 2024 | Fife Pension Fund](#) and [Funding Strategy Statement 2024 | Fife Pension Fund](#). In addition to setting out the fund's objectives, these documents also detail the controls in place to mitigate the risks facing the fund

- Fife Council has taken steps to fully integrate compliance with Pension Regulator's standards of governance and administration for the Local Government Pension Scheme (code 14), with that approach now to be applied to the new Pension Regulators General (single) Code of practice
- A structured programme to ensure the Pension Board and the Pensions Committee have the opportunity to acquire the knowledge and understanding of LGPS matters
- Systematic reporting of Key Performance Indicators to allow monitoring of performance by the Pensions Committee, Pension Board and Senior Officers
- Operate within clearly established investment guidelines defined by LGPS Investment Regulations and the fund's SIP (links above)
- Compliance with the CIPFA Principles for Investment Decision making and Disclosure in LGPS
- Operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority's rules, regulations, and guidance
- Holding investments under custody by a global custodian with the fund benefitting from the custodian's extensive internal control framework
- Benchmarking of investment costs against other pension funds using established industry processes
- Risk Management Manual which includes Policy and Strategy as well as regular monitoring of risks.

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

## **Pensions Committee**

### **Delegation**

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

### **Terms of Reference**

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

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

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

The Committee's Terms of Reference are detailed in Fife Council's List of Committee Powers which can be viewed at: [List of Committee Powers 090622 \(fife.gov.uk\)](#)

### **Frequency of Committee Meetings**

Meetings of the Committee are quarterly. Occasional ad-hoc meetings are also held as required. Committee meeting dates are listed on the Council committee diary which is available at [Pensions Committee | Fife Council](#)

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

Pension Committee Attendance at Committee and Training Events in 2023/24														
Key														
Training Completed / Attended														
Training Partially Completed / Attended														
To be completed within 6 months of joining														
Not applicable														
Non attendance		x												
Committee Date		Cllr. Dempsey (convener)	Cllr Pryde (vice convener)	Cllr Davidson	Cllr Liston (from June 23)	Cllr Alexander	Cllr Neal	Cllr Patrick	Cllr Anis-Miah (joined Oct 23)	Cllr Calder (joined Feb 24)	Cllr Dillion (resigned June 23)	Cllr Mowat (Resigned Oct 23)	Cllr Tepp (resigned Feb 24)	
23rd June 2023		✓	✓	x		✓	✓	✓			x	✓	✓	
30th June 2023		✓	✓	x		✓	✓	✓			x	✓	✓	
28th September 2023		✓	✓	✓	✓	✓	✓	x				✓	✓	
14th December 2023		✓	✓	✓	✓	✓	✓	✓	✓				✓	
28th March 2024		✓	✓	x	✓	✓	x	x	x	✓				
<b>% Attended</b>		100%	100%	40%	100%	100%	80%	60%	50%	100%	0%	100%	100%	
<b>Training attended in Year</b>														
Internal Training 29th May	3 hours	x		x				x						
PLSA Conference 8th and 9th June	15 hours		x	x		x	x	x						
Internal Training 28th August	2 hours				x		x							
Investment Strategy Training	3 hours			x	x			x						
LGPS Cost Transparency Training	2 hours	x	x	x	x	x	x	x						
LGC Seminar 19/20 October	8 hours		x	x	x	x	x	x						
Internal Training 23rd November	3 hours			x			x							
Webinar The General Code of Practice and Next Steps for the LGPS	1 hour			x			x							
Investment Strategy Training (SAA)	3 hours					x	x		x					
PLSA Conference 27, 28 and 29 Feb	15 hours		x		x	x	x	x	x					
Internal Training 04 March	3 hours			x			x		x					
Other training	Various	x		x	x	x		x	x	x				
<b>Total Hours in year</b>		<b>53</b>	<b>20</b>	<b>25</b>	<b>18</b>	<b>19</b>	<b>14</b>	<b>14</b>	<b>2</b>	<b>5</b>	<b>3</b>	<b>7</b>	<b>23</b>	
<b>Mandatory Modules Completed</b>														

## The Fife Pension Board

The Pension Board has been established to assist Fife Council:

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

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

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

In line with its constitution, Fife Pension Board has prepared and published an annual report, details can be found here [Fife Pension Board Annual Report 2023-24 | Fife Pension Fund](#)

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

Pension Board Attendance at Committee and Training Events in 2023/24										
Key										
Training Completed / Attended										
Training Partially Completed / Attended										
To be completed within 6 months of joining										
Not applicable										
Non attendance		x								
Committee Date		Cllr. Adams	Cllr Ballantyne-Wardlaw	Gail Dunn	Robert Graham	Ross Hugh	Colin Paterson	Vicki Wyse	Thomas Templeman (from Nov 23)	Ian Dawson (resigned Nov 23)
23rd June 2023		✓	✓	✓	✓	x	x	✓		✓
30th June 2023		x	x	✓	✓	✓	x	✓		x
28th September 2023		x	✓	✓	✓	✓	✓	x		x
14th December 2023		✓	✓	✓	✓	✓	✓	✓	✓	
28th March 2024		✓	x	✓	✓	✓	✓	✓	✓	
% Attended		60%	60%	100%	100%	80%	60%	80%	100%	33%
Training in Year										
Internal Training 29th May	3 hours						x	x		
PLSA Conference 8th and 9th June	15 hours			x	x	x	x	x		x
Internal Training 28th August	2 hours				x	x	x	x		x
Investment Strategy Training	3 hours		x		x	x	x			x
LGPS Cost Transparency Training	2 hours	x		x		x		x		x
LGC Seminar 19/20 October		x	x	x	x	x	x	x		x
Internal Training 23rd November	3 hours									
Webinar The General Code of Practice and Next Steps for the LGPS	1 hour	x	x	x	x	x		x		
Investment Strategy Training (SAA)	3 hours									
Internal Board Training Governance	1.25 hours					x				
PLSA Conference 27, 28 and 29 Feb	15 hours		x	x	x	x	x	x	x	
Internal Training 04 March	3 hours	x	x	x		x		x	x	
Other Training	Various	x	x	x		x		x	x	
<b>Total Hours in year</b>		<b>46.25</b>	<b>22.25</b>	<b>21.25</b>	<b>14.25</b>	<b>13</b>	<b>19.75</b>	<b>16.25</b>	<b>16.25</b>	<b>3</b>
<b>Mandatory Modules Completed</b>										

## Executive Director of Finance and Corporate Services

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

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

In addition, the responsibilities also include the following: -

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

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

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

The officers' PGG is chaired by the Head of Finance and is responsible for, amongst other things, ensuring that roles and responsibilities are allocated and documented to ensure that the fund's governance adheres to the Pension Regulator Code of Practice No.14 checklist (and the new Code in the future), as well as reviewing the risks associated with the fund to ensure they all are controlled appropriately. As such, the group review and update the fund's risk register on a quarterly basis prior to reporting to Committee. The group have a workplan in place and consider a range of pension matters including governance, risk management, administration and business planning. A major development for the group is the introduction of the Pensions Regulator General Code of Practice (GCoP) which was effective from 28 March 2024. The group will be taking forward an assessment of current practices and policies against the GCoP, preparing a gap analysis and an action plan in order to provide assurance to the Pensions Committee and Pension Board.

### **External Advisers**

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

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

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

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

Strategic investment advisory services are provided by LPFI Limited and, two independent Investment Advisers as members of the JIF. The independent advisers provide advice to the Committee and Head of Finance as well as providing training for Committee and Board members from time to time. The JIF meets on a quarterly basis and there is regular dialogue with advisers of LPFI Limited and the independent advisers out with these meetings. The Investment Strategy for the fund is approved by the Pensions Committee. Implementation of the strategy is delegated to the Head of Finance, who considers advice from the JIF, including the independent advisers before assessing the risk and return and managing the implementation process.

The fund employs a number of fund managers who invest in assets for the fund in accordance with agreed objectives.

The relationship with LPFI Limited continued to expand to increase the use of LPFI's internal investment management capabilities with LPFI Limited now acting as a fund manager for some of the investment portfolios. This is in line with the intended benefits sought through the collaboration arrangement.

Northern Trust is the global custodian for the fund and is responsible for the safekeeping of assets including transaction processing, making tax claims and securities lending on behalf of the fund.

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

An Independent Professional Observer (IPO) is employed to provide expert support and guidance to both the members of the Committee and the members of the Pension Board to assist them in discharging their duties in relation to the Pension Fund. The IPO has attended Committee meetings and participated in



providing training at internal training events, as well as attending Pension Board meetings. The IPO also attends the JIF on an annual basis and provides feedback.

## Review of effectiveness

### Internal Control

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

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

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

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

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

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

### External Control

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

Manager	Type of Report	Assurance Obtained	Reporting Accountant
Alinda (Apex Group Ltd)	SSAE18 & ISAE 3402	Reasonable Assurance	Deloitte & Touche LLP
Baillie Gifford	ISAE 3402	Reasonable Assurance	PWC LLP
Blackrock	ISAE 3402	Reasonable Assurance	Deloitte & Touche LLP
CBRE	AAF01/20 & ISAE 3402	Reasonable Assurance	KPMG LLP
Dalmore	ISAE 3402	Reasonable Assurance	PWC LLP
GIP Aquarius Fund (J.P. Morgan) (IT controls)	ISAE 3402	Reasonable Assurance	PWC LLP
GIP Aquarius Fund (J.P. Morgan) (Private Equity and Real Estate Services and Portfolio Admin System)	ISAE 3402	Reasonable Assurance	PWC LLP

Gresham House Forest Carbon	ISAE 3402	Reasonable Assurance	Grant Thornton UK LLP
Janus Henderson	ISAE 3402	Reasonable Assurance	PWC LLP
Legal & General Investment Management	AAF01/20 & ISAE 3402	Reasonable Assurance	KPMG LLP
Partners Group	ISAE 3402	Reasonable Assurance	PWC LLP
State Street	SOC1 Report	Reasonable Assurance	Ernst & Young LLP
Western	ISAE 3402	Reasonable Assurance	PWC LLP
Iona Environmental Infrastructure (Langham Hall)	ISAE 3402	Reasonable Assurance	Hays Macintyre LLP
UK Gas Distribution	SOC1 Report	Reasonable Assurance	Ernst & Young LLP
Alcentra Clareant European Direct Lending Fund	ISAE 3402	Reasonable Assurance	KPMG
Equitix	ISAE 3402	Reasonable Assurance	BDO LLP
Infracapital Greenfield partners	ISAE 3402	Reasonable Assurance	PWC LLP
Macquarie Infrastructure Debt Fund 2 LP	ISAE 3402	Controls suitably designed	PWC LLP
Adrian Infrastructure TSH Fund	ISAE 3402	Reasonable Assurance	PWC LLP
Alcentra Direct Lending	ISAE 3402	Reasonable Assurance	Deloitte
Madison MCF Senior Debt Fund	SSAE18	Reasonable Assurance	KPMG LLP
Madison MCF Sent Debt Fund IT	SSAE18	Reasonable Assurance	KPMG LLP
LPFI	Controls Letter	Reasonable Assurance	LPFI Risk and Assurance Team and Internal Audit Team
<b>Custodian</b>			
Northern Trust	SOC1 Report	Reasonable Assurance	KPMG LLP

**Key:**

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

## Update on Significant Governance issues Previously Reported

There were no significant governance issues in 2023-24 specific to the Fife Pension Fund. Nor were there any significant governance issues within the Councils governance statement of relevance to the Fife Pension Fund.

### Internal Audit Opinion

During 2023-24 the following assurance reviews were undertaken

- Follow up review (Cyber Security)
- Investment Governance
- Governance
- Post Audit Reviews

Based on the audit work undertaken, it is the opinion of Internal Audit that reasonable assurance can be placed on the adequacy and effectiveness of Fife Pension Fund's framework of governance, risk management and control for the year to 31 March 2024.

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

### Significant Governance Issues

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

The regulations as currently written require Scottish LGPS funds to include McCloud underpin information in the 2024 annual statements. However, given the magnitude of the McCloud project nationwide, the SPPA recognised this was not achievable but were unable to update the regulations to exclude the requirement before fund had started the processes of preparing the 2024 statements. To address the anomaly, the SPPA have issued a letter of comfort to all Scottish administering authorities for the 2024 annual benefit statements and advised that the breach of regulations is reported to the Pension Regulator.

In line with this guidance, the breach of regulations was reported to the Pensions Regulator in August 2024.

Details of the fund's Breaches of the Law policy statement can be viewed at [fife-pension-fund-breaches.pdf \(fifepensionfund.org\)](#)

### Governance Compliance

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

### Access to Information

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

### Governance Arrangements – Areas of Improvement and Development

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

#### Completed Improvements

- An in-depth review of compliance with the Pension Regulator’s Code 14 was undertaken, including updating the self-assessment checklist and a critical review of evidence available to support assessment. This did result in some activities moving from full compliance to partial compliance. Where this was the case, actions have been identified and assigned to allow the fund to move towards full compliance.
- A full review and update of the Funding Strategy Statement was undertaken during the year to improve the layout and flow of the document.
- The Pensions Committee and Pension Board were provided with in-house training covering investments, governance and an introduction to the LGPS. Throughout 2023-24 training sessions have been provided covering:
  - Induction Training
  - Valuation 2023
  - Cyber Security, Cost Transparency
  - Governance in LGPS and Good Governance Review, Pension Fund Annual Report and External Audit process
  - Investment Strategy including Strategic Asset Allocation
  - Pension Dashboards
  - tPR General Code of Practice
  - Cessation Amendments and New Regulations
  - PLSA Conference
  - LGC Investment Seminar
- Induction training was also carried out for new members in September, December 2023 and March 2024.
- A Business Plan was developed and presented to Committee for 2023-24. Quarterly reporting was improved to include progress against the Business Plan. Revised KPI information was also reflected in the quarterly reports alongside progress on business-as-usual activities.
- Controls around Cyber Security have been enhanced and regularly reviewed to ensure they remain effective, including assurances from suppliers, staff training and staff awareness.

### Future Developments and Improvements

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

Development	Responsible Officer	Timescales
A series of training events complementing committee business will continue for Committee and Board members with evaluation questionnaires being used to improve and enhance the event going forward. A review of the General Code of Practice is scheduled to take place which may highlight further training requirements. Consideration will also be given to adopting a knowledge assessment process to allow identification of knowledge gaps which will also inform training requirements.	Pensions Service Manager	Ongoing
Recognising that there is only partial compliance in relation to attendance at training events, the training policy will be kept under review, particularly in relation to regulatory requirements in this area and the need for mandatory participation in training. This will include reviewing the policy and examining any barriers to compliance.	Pensions Service Manager	December 2024

<p>The Pension Regulator General Code of Practice (GCoP) came into effect from 28 March 2024. This code brings together 10 of the 15 codes of practice into one single code consisting of 51 modules across 5 sections. There are two additional areas of compliance added to the GCoP, these being Cyber Controls and Scams.</p> <p>Work will be undertaken to carry out a gap analysis and assessment of compliance with the revised code and an action plan prepared to address any gaps. Regular updates on this work will be provided to committee as part of the quarterly reporting process.</p>	<p>Pensions Service Manager</p>	<p>September 2024</p>
<p>Review of the Risk Management Manual including the policy and framework. Additionally, the process for recording and reviewing risks will also be revised to ensure that the outcome of risk reviews is formally recorded in the appropriate system.</p>	<p>Pensions Service Manager</p>	<p>March 2025</p>
<p>There are aspects of the Administration Service Review that was carried out in conjunction with Hymans Robertson that are yet to be taken forward. The review was undertaken to ensure the team continues to meet its service requirements to members and employers, with the key findings focussing on roles, team structures, processes and increasing demand. This will be advanced following the appointment of the Pensions Service Manager</p>	<p>Pensions Team Leader</p>	<p>Ongoing</p>

## Certification

It is our opinion, considering the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance. We consider the governance and internal control environment operating during the financial year from 1 April 2023 to 31 March 2024 to provide reasonable and objective assurance. Any significant risks impacting on the council as administering authority and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified, and actions have and will be taken to avoid or mitigate the impact of any such risks.

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

Ken Gourlay  
Chief Executive

Councillor Dave Dempsey  
Convenor of the Pensions Committee

## Governance Compliance Statement

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

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

	<b>Compliance Standard</b>	<b>Arrangements in Place/Action Taken</b>	<b>Action Complies with Principle?</b>	<b>Reason for non-compliance</b>
			<b>Yes / No / Partial</b>	<b>(if applicable)</b>
<b>Voting</b>				
4.1	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	The 9 councillors have equal voting rights.	Yes	
<b>Training/Facility Time/Expenses</b>				
5.1	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility, time and reimbursement of expenses in respect of members involved in the decision-making process.	A training policy is in place which requires all new members of the Committee to undertake induction training provided by officers. Internal training events are designed to cover a range of pension administration and investment matters. Seminars and training events are offered by the Fund's external professional advisers, Fund Managers and other providers.	Yes	
		Training costs and expenses incurred are met by the Pension Fund.		
5.2	That where such a policy exists, it applies equally to all members	The Training Policy applies to all members of Committee and the Board.	Yes	
5.3	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	In line with the approved training policy, training is offered on a planned basis in line with Committee requirements, the policy requires a minimum of 14 hours per annum. Training need is identified from a variety of sources including a Training Needs Analysis questionnaire. Members are required to record details and advise of training attended. Monitoring of activities is reported to and undertaken by the Committee.	Partial	Partial compliance is recorded because not all members of the Committee have complied with the policy and completed the mandatory training modules by 31 March 2024.
<b>Meetings (frequency/quorum)</b>				
6.1	That an administering authority's main committee or committees meet at least quarterly.	Meetings are held quarterly and additional meetings are held when necessary.	Yes	
6.2	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable – there is no secondary committee or panel.		



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

Ken Gourlay  
Chief Executive  
30 September 2024

Councillor Dave Dempsey  
Convener of Pensions Committee  
30 September 2024

## **ACTUARIAL STATEMENT – PROVIDED BY HYMANS ROBERTSON**

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

### **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2024. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 18 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 80% chance that the Fund will return to at least full funding over 18 years.

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

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £3.420bn, were sufficient to meet 151% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £1.148bn.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2024 to 31 March 2027 were set in accordance with the Fund's funding policy as set out in its FSS.

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

Full details of the methods and assumptions used are described in the 2023 valuation report and can be accessed at [Valuation Report 2023](#)

#### **Method**

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

## Assumptions

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

The key financial assumptions adopted for the 2023 valuation were as follows:

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

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

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

\* Currently aged 45.

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

## Experience over the period since 31 March 2023

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

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

Greer Flanagan FFA

For and on behalf of Hymans Robertson LLP  
7 May 2024

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

## REMUNERATION REPORT

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

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

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

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

## STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

### The Administering Authority's Responsibilities

The Authority is required: -

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

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

Signed on behalf of Fife Council

Councillor Dave Dempsey  
Convener of Pensions Committee  
30 September 2024

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

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

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

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

The Executive Director Finance and Corporate Services has also: -

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

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

Eileen Rowand  
Executive Director Finance and Corporate Services  
30 September 2024

## Fife Pension Fund Accounts

### Fund Account

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

2022-23			2023-24
£m		Notes	£m
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(118.346)	Contributions Receivable	6	(128.412)
(1.867)	Transfers in from other pension funds		(2.288)
(120.213)			(130.699)
98.974	Benefits Payable	7	112.555
2.629	Payments to and on Account of Leavers	8	21.058
101.603			133.613
<b>(18.610)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>2.914</b>
17.614	Management Expenses	9	16.524
<b>(0.996)</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>19.438</b>
	<b>Returns on investments</b>		
(45.286)	Investment Income	10	(55.123)
0.429	Taxes on income		0.479
157.042	(Profit) and losses on disposal of investments and changes in the market value of investments	11a	(203.867)
<b>112.185</b>	<b>Net return on investments</b>		<b>(258.511)</b>
<b>111.189</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(239.073)</b>
3,531.319	Opening net assets of the scheme at 1 April		3,420.129
(111.189)			239.073
<b>3,420.129</b>	<b>Closing net assets of the scheme at 31 March</b>		<b>3,659.202</b>

## Fife Pension Fund Accounts

### Net Asset Statement

The Net Asset Statement sets out the value, as at the statement date, of all assets and current liabilities of the Fund. The net assets of the Fund (assets less current liabilities) represents the funds available to provide for pension benefits as at 31 March 2024.

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

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

The unaudited financial statements were issued on 28 June 2024 and the audited accounts were authorised for issue on the 30 September 2024.

Eileen Rowand  
Executive Director Finance and Corporate Services  
30 September 2024

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

### 1 Description of Fund

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

#### General

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

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

It is a contributory defined benefit pension scheme administered by Fife Council to provide pensions and other benefits for pensionable employees of Fife Council and a range of other scheduled and admitted bodies within the Fife area. Teachers cannot become members as they have other national pension schemes available to them.

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

#### Membership

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

Organisations participating in the fund include the following:

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

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



## 1 Description of Fund ( continued )

### Changes in Membership

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

### Funding

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

### Scheme Benefits

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

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

The following table gives a summary of scheme benefits

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

## 2 Basis of Preparation

The statement of the accounts summarises the fund's transactions for the 2023-24 financial year and its position at the year end as at 31 March 2024. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023-24 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

### 3 Statement of Accounting Policies

#### a) General

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023-24, (the Code) which incorporates the International Financial Reporting Standards, in particular International Accounting Standard (IAS) 26 Retirement Benefit Plans, the accounting standard applicable for Pension Funds. The Code also adopts parts of the Financial Reports of Pension Schemes - Statement of Recommended Practice 2018, such as the format of the accounting statements.

#### b) Accruals

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

#### c) Valuation of Investments

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

#### d) Foreign Currency Transactions

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

#### e) Contributions and Benefits

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

#### f) Transfer Values

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

#### g) Investment Income

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

#### h) Administrative and Investment Management Expenses

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

#### i) Cash and Cash Equivalents

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

#### j) VAT

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

#### k) Taxation

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

#### l) Financial Assets

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

### 3 Statement of Accounting Policies ( continued )

#### m) Financial Liabilities

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

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

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

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

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

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

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

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

#### p) Derivatives

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

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

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

#### q) Fair value measurement

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

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

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

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

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

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

#### r) Prior Year Adjustments

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

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

#### 4 Critical Judgements in Applying Accounting Policies

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

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

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

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

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

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

## 6 Contributions Receivable

### By Category

2022-23		2023-24
£m		£m
(23.270)	<b>Employees' Contributions</b>	<b>(25.081)</b>
	Employers' Contributions	
(94.726)	Normal contributions	(102.964)
(0.350)	Augmentation contributions	(0.367)
<b>(95.077)</b>	<b>Total employers' contributions</b>	<b>(103.331)</b>
<b>(118.346)</b>		<b>(128.412)</b>

### By authority

2022-23		2023-24
£m		£m
(100.914)	Fife Council	(110.220)
(8.584)	Scheduled bodies	(9.071)
(8.848)	Admitted bodies	(9.121)
<b>(118.346)</b>		<b>(128.412)</b>

## 7 Benefits Payable

### By Category

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

### By authority

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

## 8 Payments to and on Account of Leavers

2022-23		2023-24
£m		£m
0.317	Refunds to members leaving service	0.368
0.003	State Scheme Premiums	0.001
	Transfers to other Schemes	
2.310	Individuals	4.651
0.000	St Andrews Link Trust	13.237
0.000	Fife Housing Group	2.801
<b>2.629</b>		<b>21.058</b>

## 9 Management Expenses

2022-23		2023-24
£m		£m
1.917	Administrative costs	2.284
15.207	Investment management expenses	13.575
0.490	Oversight and governance costs	0.665
<b>17.614</b>		<b>16.524</b>

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

### 9a Investment Management Expenses

2023-24	Management Fees	Performance Related Fees	Transaction Costs	Total
	£m	£m	£m	£m
Pooled Investments	0.680	0.000	0.042	0.722
Equities	1.185	0.000	0.339	1.524
Bonds	0.677	0.000	0.069	0.747
Pooled Property Investments	5.596	0.064	1.007	6.667
Private Equity/Infrastructure	3.642	(0.236)	0.284	3.690
Cash	0.000	0.000	0.038	0.038
	<b>11.781</b>	<b>(0.171)</b>	<b>1.778</b>	<b>13.388</b>
Custody Fees				0.187
				<b>13.575</b>

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

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

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

## 10 Investment Income

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

## 11a Reconciliation of Movements in Investments and Derivatives

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

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

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

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

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

Trading gains and market value movements accounted for £203.867m per the Fund Account. This is different to the £194.011m reported above. The reason for this difference is £9.857m of indirect management expenses which have been included within note 9 to the accounts



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

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

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

## 11b Analysis of Investments

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

## 11c Investments Analysed by Fund Manager

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

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

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

## 11d Stock Lending

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year end, the value on loan was £45.006m (31 March 2023 £69.287m). This stock lending programme continues to be recognised in the fund's financial statements. Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year end, the fund held collateral (via the custodian) at a market value of £46.864m (31 March 2023 £71.880m) representing 104.1% of stock lent. Collateral consists of acceptable securities and government debt.

2022-23			2023-24
£m			£m
54.082	Bonds		40.435
15.205	Equities		4.571
<b>69.287</b>			<b>45.006</b>

## 12 Analysis of Derivatives

### Objectives and policies for holding derivatives

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

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

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

### Futures

Outstanding exchange traded futures contracts are as follows:

2023-24	Expires	Economic Exposure	Assets £m	Liabilities £m
<b>Fixed Income Futures</b>				
Overseas fixed interest	one year	5.304	0.040	0.000
UK fixed interest	one year	1.599	0.040	0.000
Overseas fixed interest	one year	(3.922)	0.000	(0.015)
		<b>2.981</b>	<b>0.080</b>	<b>(0.015)</b>

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

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

### Open forward currency contracts

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

### 13 Fair Value - Basis of Valuation

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

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

## 13a Fair Value Hierarchy

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

### Level 1

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

### Level 2

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

### Level 3

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

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

### 13a Fair Value Hierarchy ( continued )

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

Values at 31 March 2024	Quoted Market Price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Investment assets at fair value	1,926.559	973.196	764.392	3,664.147
	<b>1,926.559</b>	<b>973.196</b>	<b>764.392</b>	<b>3,664.147</b>

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

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

	Market value 31 March 2023 £m	Transfers into Level 3 £m	Transfers out of Level 3 £m	Purchases during the year and derivative payments £m	Sales during the year and derivative receipts £m	Unrealised gains/ (losses) £m	Realised gains/ (losses) £m	Market value 31 March 2024 £m
Overseas Property Funds	0.008	0.000	0.000	0.000	0.000	(0.000)	0.000	0.008
Overseas Venture Capital	203.536	0.000	0.000	45.901	(16.995)	18.549	0.166	251.158
UK Property Funds	150.360	0.000	0.000	14.433	(6.129)	(5.511)	(1.812)	151.341
UK Venture Capital	291.020	0.000	0.000	77.132	(35.236)	28.970	0.000	361.885
	<b>644.924</b>	<b>0.000</b>	<b>0.000</b>	<b>137.466</b>	<b>(58.360)</b>	<b>42.008</b>	<b>(1.646)</b>	<b>764.392</b>

## 14 Classification of Financial Instruments

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

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

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

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

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

Liquidity risk

Credit risk

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

### Liquidity Risk

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

All financial Liabilities are due within one year.



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

### Credit Risk

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

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

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

### Market Risk

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

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

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

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

### Currency Risk

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

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

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

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

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

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

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

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

### Interest Rate Risk

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

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

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

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

Market Risk - interest rate risk 31 March 2024	Duration (years)	Asset Values assumed £m	Asset Value on increase of 1% £m	Asset Value on decrease of 1% £m
<b>Asset Type</b>				
<b>Fixed Interest Securities</b>				
UK public sector (quoted)	10.52	71.963	64.319	79.607
UK corporate (quoted)	6.20	35.203	33.007	37.398
Overseas public sector (quoted)	1.53	1.006	1.000	1.011
Overseas corporate (quoted)	6.10	41.214	38.689	43.740
UK public sector index linked	10.73	447.419	410.653	484.186
<b>Cash &amp; cash equivalents</b>				
Cash		115.555	117.533	113.577
<b>Total</b>		<b>712.360</b>	<b>665.201</b>	<b>759.519</b>

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

### Other Price Risk

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

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

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

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

Market Risk - other price risk 31 March 2024	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
<b>Asset Class</b>					
UK Equities	16.00	13.91	509.50	591.020	427.980
Global Equities	16.70	35.29	1,292.70	1,508.581	1,076.819
Infrastructure	13.60	5.96	218.40	248.102	188.698
Property	15.60	1.34	49.10	56.760	41.440
Corporate Bonds (short term)	3.20	0.98	35.80	36.946	34.654
Corporate Bonds (medium term)	7.00	7.55	276.70	296.069	257.331
Corporate Bonds (long term)	8.00	2.59	95.00	102.600	87.400
fixed gilts (short term)	2.00	0.19	7.10	7.242	6.958
fixed gilts (medium term)	5.80	0.78	28.50	30.153	26.847
fixed gilts (long term)	7.20	2.88	105.50	113.096	97.904
UK index linked gilts (short term)	0.00	0.00	0.00	0.000	0.000
UK index linked gilts (medium term)	7.10	0.91	33.50	35.879	31.122
UK index linked gilts (long term)	8.40	9.87	361.50	391.866	331.134
Cash	0.30	16.04	587.60	589.363	585.837
Private Debt	8.80	1.69	61.90	67.347	56.453
		<b>100.00</b>	<b>3,662.800</b>	<b>4,075.023</b>	<b>3,250.577</b>

Market Risk - other price risk 31 March 2023	1 year expected volatility (%)	% of Fund	Asset Values assumed £m	Value on increase £m	Value on decrease £m
<b>Asset Class</b>					
UK Equities	18.20	16.26	556.900	658.256	455.544
Global Equities	19.00	33.40	1,143.800	1,361.122	926.478
Infrastructure	16.00	14.22	486.800	564.688	408.912
Property	15.50	6.81	233.200	269.346	197.054
Corporate Bonds (short term)	3.60	0.64	21.800	22.585	21.015
Corporate Bonds (medium term)	7.50	8.34	285.400	306.805	263.995
Corporate Bonds (long term)	8.70	2.96	101.500	110.331	92.670
fixed gilts (short term)	2.00	0.09	3.000	3.060	2.940
fixed gilts (medium term)	6.00	1.11	37.900	40.174	35.626
fixed gilts (long term)	7.60	2.66	91.100	98.024	84.176
UK index linked gilts (short term)	0.00	0.00	0.000	0.000	0.000
UK index linked gilts (medium term)	7.20	0.79	27.100	29.051	25.149
UK index linked gilts (long term)	8.90	8.07	276.300	300.891	251.709
Cash	0.30	3.25	111.300	111.634	110.966
Absolute Return/Diversified Growth	8.90	0.00	0.000	0.000	0.000
Private Debt	9.60	1.40	48.000	52.608	43.392
		<b>100.00</b>	<b>3,424.100</b>	<b>3,928.574</b>	<b>2,919.627</b>

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

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

## 16 Actuarial Valuation

Employee contributions are fixed by statute and employers' basic contributions are assessed every three years by the actuary. The last valuation of the fund was carried out as at 31 March 2023 by Hymans Robertson and the actuarial statement, including assumptions made in the calculations, is contained in this Annual Report on page 26.

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

Financial Year	Employers' Contribution rate
2024-25	21.50%
2025-26	21.50%
2026-27	21.50%

The actuary also undertakes a valuation to present the value of promised retirement benefits, an equivalent calculation which shows employers' future liability to pay pensions earned at the balance sheet date, in accordance with IAS19. It is essentially a snapshot which captures the liability at a specific point in time only and should not be used for comparing against liability measures on a funding basis. The liabilities have been projected using a roll forward from the latest formal fund triennial valuation at 31 March 2023, with no allowance for future unfunded benefits.

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

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

### IAS 19 Assumptions used

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

### Demographic assumptions

	Males	Females
<b>Future life expectancies assumed in the calculation</b>		
Current Pensioners	20.0	22.9
Future Pensioners	20.7	24.6

### Sensitivity Analysis

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

Change in assumptions at 31 March 2023	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount (£m)
0.1% decrease in the Discount Rate	2%	49
1 year increase in member life expectancy	4%	108
0.1% increase in the Salary Increase Rate	0%	3
0.1% increase in the Pension Increase Rate (CPI)	2%	47

## 17 Analysis of Debtors

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

## 18 Additional Voluntary Contributions (AVC)

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

## 19 Related Party Transactions

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

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

### Governance

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

## 19a Key Management Personnel

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

2022-23		2023-24
£m		£m
0.307	Salary, fees & Allowances	0.359
<b>0.307</b>		<b>0.359</b>

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

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

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

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

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

There have been no events since March 2024 which require disclosure.

## **21 Contingent Assets and Liabilities**

At 31 March 2024 there were no contingent assets or liabilities.

## **22 Impairment Losses**

No investment assets were subject to impairment during the year.

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

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

Accounting Standards not yet adopted are:-

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

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

## **MEMBERSHIP OF THE FUND**

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

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

The list of participating employers at 31 March 2024 is as follows: -

### **Scheduled Bodies**

Fife Council

Fife College

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

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

### **Admitted Bodies**

Citizens Advice & Rights Fife

Home-Start Levenmouth

Business Gateway Fife

Drug & Alcohol Project

Fife Intensive Rehabilitation & Substance Misuse Team (FIRST)

The Clued-Up Project

Forth & Oban

Fife Sport & Leisure Trust

Fife Coast & Countryside Trust

Fife Golf Trust

Fife Cultural Trust

Scotland's Rural College (SRUC)

Fife Resource Solutions

Sodexo

Fife Housing Group exited the Fund on 30 June 2023.

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



## FIFE PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

#### 1. Introduction

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

#### 2. Governance

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

#### 3. High Level Investment Principles

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

## Governance

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

## Funding

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

## Investments

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

## 4. Responsible Investment

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

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

## 5. Funds' Objectives

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

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

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

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

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

## 6. Fund Strategy

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

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

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

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

## 7. Strategy Implementation

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

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

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

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

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

## **8. Other Investment Considerations**

### **Realisation of investments**

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

### **Stock Lending**

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

### **Underwriting**

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

### **Derivatives**

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

### **Safekeeping of Assets**

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

## **9. Compliance**

### **Regulations and Investment Limits**

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

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

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

### **Review of SIP**

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

## Appendix A – Investment Strategy (28 March 2024)

### FIFE PENSION FUND: INVESTMENT STRATEGY

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

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

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

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

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



## Appendix C – Stewardship Statement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- We expect the approach to engagement on our behalf to be value-orientated and focused on long term sustainable profitability.
- EOS monitors the activity of many of our investee companies and escalate engagement activity directly with them as required.
- Consistent with our fiduciary duty to beneficiaries and to encourage improved conduct in future, we consider participating in shareholder litigation where it appears likely that the Fund will recover losses (net of costs) sustained because of inappropriate actions by company directors.

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

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

- the appointment of EOS, whose engagement service pools asset ownership with the aim of protecting and enhancing shareholder value. EOS represents us and other like-minded asset owners globally using its expertise to enhance our effectiveness in communicating with companies, industry bodies, regulators and legislators.
- Our preference is for managers to vote on the Funds' behalf and for responsible stewardship to be integral to the investment decision-making process. We are comfortable with delegation of voting to External Fund Managers for the funds they manage.
- For all other mandates, EOS votes consistently across the portfolios it covers, and makes voting decisions based on a thorough analysis of publicly available information and always taking account of a company's individual circumstances. EOS informs companies where it has concerns and seeks a resolution prior to taking the decision to vote against management. In this way, it uses our votes as a lever for positive change at companies. Underpinning voting decisions are EOS Corporate Governance policies, which can be found in the following link:  
<https://www.hermes-investment.com/uki/about-us/policies-and-disclosures/>
- We are committed to disclosing our historic voting information on our website. This includes the total number of votes cast at which company meetings and whether the votes were cast for or against company management. We will disclose in arrears so that we are transparent and accountable but dialogue with companies in our portfolios is not compromised.

***Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity,***

- We seek to vote on all shares held and have appointed EOS to exercise voting on our behalf in respect of active mandates held. EOS's voting policy is in accordance with their Global Voting Guidelines. The guidelines reference environmental, social and governance factors and aim to harness voting rights as an asset to help achieve positive engagement outcomes.
- The Fund retains the right to direct EOS or a manager in a particular way in respect of any corporate governance issue.

***Principle 7: Institutional investors should report periodically on their stewardship and voting activities.***

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

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

## Appendix D – CIPFA Principles for investment decision making and disclosure

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

### Principle 1 – Effective decision making

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

- The Fund's Training Policy (Comprising a compulsory training seminar for all new trustees and a requirement to undertake no less than two days (14 hours) of training in each year for all Pensions Committee and Pension Board members) provides the knowledge to enable them to evaluate and challenge the advice they receive. Standards relating to the administration of the Committee's business are strictly up-held. [Training Policy | Fife Pension Fund](#)
- The Fund has appointed an Independent Professional Observer to strengthen governance. The role of the Observer is to provide the Committee and Pensions Board with an impartial, additional source of experience and technical knowledge.
- The Pensions Committee focuses on setting the strategy for the Fund and monitoring performance. The Pension Board also attends Committee meetings and is responsible for assisting the Committee in securing compliance with relevant regulations and other legislation.
- The Committee delegates the day-to-day running of the Fund to the Executive Director of Finance and Corporate Services, who in turn delegates to the Head of Finance and Funds' officers. The Executive Director of Finance and Corporate Services is responsible for the provision of training for Committee to help them to make effective decisions to ensure that they are fully aware of their statutory and fiduciary responsibilities, and to regularly remind them of their stewardship role.
- The Joint Investment Strategy Panel advises the Head of Finance on the implementation of the agreed strategies, reviewing structure, funding monitoring, performance and risk and asset allocation. The Joint Investment Strategy Panel meets at least quarterly and is made up of experienced investment professionals, including independent advisers.
- The in-house team undertakes day-to-day monitoring of the Fund. The team includes personnel with suitable professional qualifications and experience to provide the necessary skills, knowledge, advice and resources to support the Joint Investment Strategy Panel and the Pensions Committee.
- Conflicts of interest are managed actively. At each Committee meeting, elected members of the Pensions Committee and Pensions Board are asked to highlight conflicts of interest. A Code of Conduct applies to members of the Committee and the Pension Board. The Fund ensures conflicts of interest are highlighted and managed appropriately.
- Conflicts of interest are also managed in each JISP meeting and dealt with as a standing item at the beginning of each meeting.

### Principle 2 – Clear Objectives

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

- The Statement of Investment Principles and the Funding Strategy Statement define the Fund's primary funding objectives.
- Asset-liability modelling is undertaken with the help of external advisers to aid the understanding of risks and the setting of investment strategy.

- Employers' attitude to risk is specifically considered in the setting of strategy, and employers can request a bespoke investment strategy.
- Reviews of investment strategy focus on the split between broad policy groups (equities, gilts, other debt, other real assets and cash).
- Investment Management Agreements set clear benchmarks and risk parameters and include the requirement to comply with the Fund's Statement of Investment Principles.
- Appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contract. Procurement of advisers is conducted within European Union procurement regulations.
- The setting of the Funding Strategy includes specific consideration of the desire to maintain stability in employer contribution rates.

### **Principle 3 – Risk and liabilities**

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

- The Fund takes advice from the scheme's actuary regarding the nature of its liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength and longevity risk.
- The Fund will consider requests for such alternative strategies, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.
- The Funding objectives for the Fund is expressed in relation to the solvency and employer contribution rates. The Fund regularly assess the covenants of participating employers.
- The Executive Director of Finance and Corporate Services is responsible for ensuring the appropriate controls of the Fund. Controls are subject to internal audit, and results of audits are submitted to the Standards and Audit Committee.
- The Fund maintain a risk register, which is reviewed on a regular basis.

### **Principle 4 – Performance assessment**

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

- The Fund's performance and risk analysis is produced by an independent external provider.
- The internal investment team monitors the external investment managers' performance and risk on a regular basis and reports this to the Joint Investment Strategy Panel. The Joint Investment Strategy Panel assesses the performance and risk of both internal and external investment managers on a regular basis (typically quarterly).
- The Fund's contracts with its advisers are regularly market tested.
- The Joint Investment Strategy Panel assesses its own performance on a regular basis and reports to Committee on its activities, typically annually.
- Training and attendance of members of the Pensions Committee and the Pensions Board are monitored and reported on a regular basis. The composition of the Committee and Pension Board is kept under review.

### **Principle 5 – Responsible ownership**

*Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.*

*A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.*

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

- The Fund's approach to responsible investment is described in the Statement of Investment Principles and the Statement of Responsible Investment, both of which can be found on the Fund's website.
- Details of the Fund's voting and engagements are available on the Fund's website. The Fund's annual report and accounts includes a summary of the Fund's approach to responsible investment. The full report is available on the website and is sent to members on request.

#### **Principle 6 – Transparency and reporting**

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

- Meetings of the Pensions Committee are open to the public. Members of the public are entitled to make a deputation at Committee meetings. Committee papers are available on the Fife Council website. The Pension Board joins the Committee at all meetings.
- The Committee's remit covers wider pension scheme issues, other than the management and investment of funds.
- The Fund's policy statements, including the Communications Strategy, Statement of Investment Principles, Statement of Responsible Investment Principles and Funding Strategy Statement are maintained regularly. Stakeholders are consulted on changes. Documents are available on the Fund's website.
- The Fund produces an Annual Report & Accounts. The full report is available on the website, and is sent to members on request. The Fund also produces an annual newsletter for members as well as an annual benefit statement. Regular briefings are provided to employers. The Fund's website is updated regularly.

## FIFE PENSION FUND COMMUNICATION POLICY

(Dec 2022)

### Introduction

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

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

The communication policy statement must set out:

- The provision of information and publicity of the scheme to members, representatives of members and scheme employers.
- The format, frequency, and method of distributing information and publicity.
- The promotion of the scheme to prospective members and scheme employers

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

### Communications Objectives

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

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

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

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

### Who we communicate with

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

### How we will communicate

#### Fund Website

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

- Scheme policies

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

The scheme website can be found at [Home | Fife Pension Fund](#)

### **Fife Council Website**

The Pension Committee and Fife Pension Board agendas and minutes can be found on the main Council website. [Pensions Committee | Fife Council](#)

### **Member Self Service (MSS)**

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

- Update personal information e.g., change of address, nominations of beneficiaries
- View scheme membership and financial details
- View Annual Benefit Statements
- Access publications such as scheme guides, newsletters and factsheets
- Carry out pension quotes on demand without needing to contact the Pensions Team
- Upload any documents that the Pensions Team request
- Use the contact facility to raise any questions
- Pensioner members can access payslips and P60 details and check/update their bank details

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

### **General Communications**

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

E-mail enquiries should be addressed to [pensions.section@fife.gov.uk](mailto:pensions.section@fife.gov.uk)

Postal enquiries should be addressed to:

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

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

### **Employers' Meetings**

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

### **Member Presentations**

Available to scheme members on specific pension related matters, such as HMRC pension tax rules or pre-retirement sessions.

### **Visit to our Office**

Scheme members can arrange to visit our office to speak to a member of our Pensions Administration Team, however appointments must be please pre-booked. We are also able to offer virtual meetings using Microsoft Teams where we can share documents with scheme members and answer any questions in the same way as a traditional face to face meeting



## **Specific Communications**

### **Pensioners**

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

### **Active Members**

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

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

### **Deferred Members**

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

### **Prospective Members**

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

### **Scheme Employers**

The Fund communicates with scheme employers in the following ways:

- Annual Employers' Forum.
- Employer newsletters giving updates on legislation and policy matters.
- Wording of global emails/intranet messages provided for employers to cascade down to scheme and potential members.
- Pension Administration strategy setting out the roles, responsibilities and service standards for the Fund and employers.
- Annual report on the Fund.
- Valuation report.
- Promotion of pension website. Guides/leaflets and forms can be downloaded from the site.
- Training and support provided by Team members on technical, procedural and policy matters.

### **Pensions Committee and Fife Pension Board**

The Committee and Board members directly receive all meeting papers electronically. Agendas, meeting papers and minutes are available on the Council's website.

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

### **Representatives of Members**

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

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

The Pension Team assists Trade Union representatives with member queries.

## Evaluation

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

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

## Investment commentary

### Provided by LPFI Ltd

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

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

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

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

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

## **ADDITIONAL INFORMATION**

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

### **Comments and Suggestions**

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

Please email your comments to: [Pensions.section@fife.gov.uk](mailto:Pensions.section@fife.gov.uk)

### **Contact Details**

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

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

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

Email: [Pensions.section@fife.gov.uk](mailto:Pensions.section@fife.gov.uk)

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

Email: [Banking.Investments@fife.gov.uk](mailto:Banking.Investments@fife.gov.uk)

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

## **Reporting on the audit of the financial statements**

### **Opinion on financial statements**

We certify that we have audited the financial statements in the annual report of Fife Pension Fund (the Fund) for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

In our opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2024 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### **Basis for opinion**

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the Fund. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern basis of accounting**

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

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

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

### **Risks of material misstatement**

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

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

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

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the Fund;
- inquiring of the Executive Director Finance and Corporate Services as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Fund;
- inquiring of the Executive Director Finance and Corporate Services concerning the Fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Reporting on other requirements**

#### **Other information**

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

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and

Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

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

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

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

**Matters on which we are required to report by exception**

We are required by the Accounts Commission to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

**Conclusions on wider scope responsibilities**

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

**Use of our report**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Karen Jones, for and on behalf of Azets Audit Services  
Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

Date:.....





**Fife  
Pension Fund**

Administered by Fife Council



30 September 24

Agenda Item No. 4

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## 2024/25 Internal Audit Plan

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

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**Wards Affected:** All

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### Purpose

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To submit to the Pensions Committee the Fife Pension Fund's Internal Audit Plan for the 2024/25 financial year.

### Recommendation

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Pensions Committee is asked to review and approve the 2024/25 Internal Audit Plan as detailed at Appendix A.

### Resource Implications

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This Internal Audit Plan has been developed within the agreed resources.

### Legal & Risk Implications

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The Internal Audit Plan is designed to review the highest risk areas, taking into account results from previous years' audit reviews.

Internal audit is required to have sufficient coverage of the Pension Fund's activities to allow the Service Manager, Audit and Risk Management Services to give an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control.

### Impact Assessment

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

### Consultation

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The Executive Director of Corporate Services, Head of Finance and the Convener of the Pensions Committee have been consulted on the content of this report.

## 1.0 2023/24 Internal Audit Plan

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- 1.1 The Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013 and revised most recently in April 2017, set out the requirements in respect of professional standards for all internal audit service providers within the public sector. The key standards within the PSIAS that relate to the preparation of the Internal Audit Plan are as follows:
- Standard 2010 – Planning, which states that *“the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”*.
  - Standard 2020 – Communication and Approval, which states that *“the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations”*.
- 1.2 In practice, for the Fife Pension Fund, a risk-based plan outlining the planned programme of work to be undertaken is developed annually by Fife Council’s Audit Services. Due to the environment in which pension funds operate and the potential corresponding challenges, the Audit Plan requires to be sufficiently flexible enough to enable it to respond to changes in the Pension Fund’s risks and priorities when they present themselves.
- 1.3 In developing the plan, the risk management framework was taken into consideration. A Risk Management - Quarterly Review report containing the Fife Pension Fund’s Risk Register was considered by the Pensions Committee at its meeting on 28 June 2024. The 2024/25 Internal Audit Plan has been cross-referenced where appropriate to risks within it, using corresponding risk descriptions and inherent (original) risk scores.
- 1.4 Whilst the Fife Pension Fund is responsible for establishing and maintaining an appropriate framework of governance, risk management and control, a fundamental role of internal audit is to provide Elected Members and senior management with independent and objective assurance surrounding those arrangements, whilst at the same time adding value and supporting improvement.
- 1.5 The Service Manager, Audit and Risk Management Services is required to provide an annual internal audit opinion on the adequacy and effectiveness of the Pension Fund’s framework of governance, risk management and control. With that in mind, the Internal Audit Plan should include a programme of work that is sufficient enough to enable that opinion to be formed / provided. The annual opinion is included within the Internal Audit Annual Report submitted to the Pensions Committee.
- 1.6 Key components of the internal audit planning process include having a clear understanding of the Pension Fund’s functions / activities, associated risks and range and breadth of potential areas for auditing. This is known as establishing the Audit Universe. The Pension Fund’s High Level Audit Universe and a Summary of Audit Reviews delivered over the last 3 years can be found at Appendix B and Appendix C respectively. The planning process is also informed by developments at both a national and local level as well as other relevant background information. To capture potential areas of risk and

uncertainty, including emerging risks, key stakeholders have also been consulted.

- 1.7 The proposed portfolio of work to be included within the 2024/25 Internal Audit Plan is summarised at Appendix A. For each of the reviews included in the plan there is a summary of the proposed coverage along with the inherent (original) risk score, informed by the Pension Fund's Risk Register. It is anticipated that there will be internal controls in place to mitigate those risks, however, the effectiveness of those controls and the reliance that can be placed on them cannot be confirmed until the audit reviews have been undertaken. The proposed coverage has, in the main, been compiled based on discussions and review of relevant background information gathered as part of the audit planning process. In line with standard working practices, a more detailed Terms of Reference document, containing background information, scope and specific objectives will be compiled for each review and agreed with the client prior to commencement of the audit fieldwork.
- 1.8 The nature and scope of internal audit work continues to be diverse, and therefore, a varied portfolio of professional skills and technical competencies is required to successfully deliver an audit plan. It is challenging to ensure the continued provision of all necessary skills in an in-house team and, therefore, if considered appropriate for the area under review, technical advice and guidance will be obtained.
- 1.9 In line with last year, the total productive days available during 2024/25 for audit work is of the order of 55 days; approximately 90% of those days will be assigned to specific audit reviews, with the balance being allocated across several other activities, including the provision of advice and guidance and following up on progress made towards implementing previously agreed recommendations. An additional 5 days has been set aside for planning, including time required to compile the Internal Audit Plan and Annual Report for the Fife Pension Fund.
- 1.10 The 2024/25 Internal Audit Plan, including estimated resources, has been prepared utilising information currently available, however, it is possible that the plan may require to be amended during the financial year to reflect changing risks and priorities. As required under the PSIAS, any significant changes to the planned programme of work will be reported to the Pensions Committee. The Head of Finance will also be kept informed of developments regarding internal audit by the Service Manager, Audit and Risk Management Services through regular meetings.

## 2.0 Internal Audit Plan - Progress Reports

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- 2.1 Standard 2060 of the PSIAS entitled Reporting to Senior Management and the Board states that *"the chief audit executive must report periodically to senior management and the board on...performance relative to its plan"* and that *"reporting and communication to senior management and the board must include information about the audit plan and progress against the plan"*. In addition, Standard 1110 of the PSIAS entitled Organisational Independence supports this requirement, stating that *"examples of functional reporting to the board involve the board receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan"*.

- 2.2 At a senior management level, this requirement is discharged by the Service Manager, Audit and Risk Management Services through established direct reporting channels to the Head of Finance (to whom the Service Manager, Audit and Risk Management Services reports administratively). In relation to the Pensions Committee, updates towards delivering the 2024/25 Internal Audit Plan will be submitted periodically.

## 3.0 Conclusions

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- 3.1 The 2024/25 Internal Audit Plan (Appendix A) has been compiled following an internal audit planning exercise, including consultation with key stakeholders and consideration of relevant background information.
- 3.2 The Audit Plan requires to be sufficiently flexible enough to enable it to respond to changes in the Pension Fund's risks and priorities when they present themselves and, consequently, will be kept under continuous review. Any significant changes to the planned programme of work will be reported back to the Pensions Committee.
- 3.3 Updates towards delivering the 2024/25 Internal Audit Plan will be submitted periodically to the Pensions Committee.

## List of Appendices

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- A. 2024/25 Internal Audit Plan
- B. High-level Audit Universe
- C. Summary of Audit Reviews Delivered (2021/22 - 2023/24)

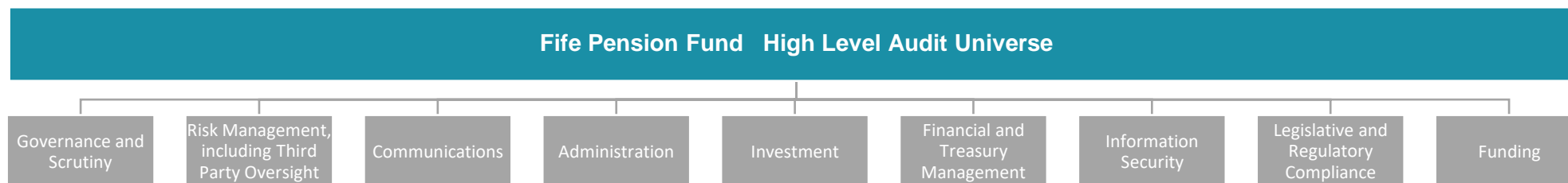
Report Contact:

Pamela Redpath

Service Manager, Audit and Risk Management Services

Email – [pamela.redpath@fife.gov.uk](mailto:pamela.redpath@fife.gov.uk)

<b>2024/25 INTERNAL AUDIT PLAN</b>		
<b><i>Audit Review / Activity</i></b>	<b><i>Proposed Coverage</i></b>	<b><i>June 24 - Risk Register Extract Description &amp; Inherent (Original) Risk Score</i></b>
Stakeholder Communication	Review to assess Fife Pension Fund's communication strategy, channels and materials to ensure efficient, effective and timely communication with key stakeholders, including employers and scheme members.	We fail to communicate properly with stakeholders. 8 - Medium
Business Continuity Planning	Review to assess the adequacy of the business continuity arrangements in place to ensure that critical services / functions can continue to be provided for Fife Pension Fund in the event of a major incident, including those resulting in loss of office, system and staff.	We are unable to keep service going due to loss of main office, computer system or staff. 12 - Medium
Follow-up Review	Specific review undertaken by internal audit staff to provide formal assurances to management and Elected Members that recommendations previously agreed have been implemented.	-
Post Audit Reviews (PARs)	Completion of the PAR exercise, whereby formal assurances are obtained from management that internal audit recommendations have been implemented.	-
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.	-
Specific Investigations	To respond to requests for advice and assistance as required in respect of cases of suspected fraud, corruption or malpractice.	-



<b><i>Summary of Audit Reviews Delivered</i></b>	
<b>2021/22 Internal Audit Plan</b>	Pensions Contributions (employee and employer)
	Performance Management
<b>2022/23 Internal Audit Plan</b>	Cyber Security
	Risk Management Arrangements
	Follow-up Review of Training and Resources
<b>2023/24 Internal Audit Plan</b>	Governance, Oversight and Scrutiny
	Investment Strategy Implementation
	Follow-up Review of Cyber Security



30 September 2024

Agenda Item No. 5

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## National Fraud Initiative (NFI) in Scotland

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

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**Wards Affected:** All

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### Purpose

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To submit to Members of the Pensions Committee a copy of Audit Scotland's national report on the 2022/23 National Fraud Initiative (NFI) exercise, and an update on Fife Council's preparations for the 2024/25 NFI exercise.

### Recommendation(s)

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The Committee is asked to:

1. note Audit Scotland's national report summarising the outcomes from the 2022/23 NFI exercise, published August 2024 at Appendix A, in particular page 20 of the report, which relates to Pensions;
2. note Fife Council's preparations to date re the 2024/25 NFI exercise; and
3. note the completed NFI Self-Appraisal Checklist, for those charged with governance, at Appendix B.

### Resource Implications

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The NFI exercise is planned and delivered utilising existing corporate resources.

### Legal & Risk Implications

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Participation in the NFI exercise is mandatory, including the requirement to upload pensions data. If the key messages and recommendations within the Audit Scotland report are not considered / acted upon then Fife Pension Fund may be unnecessarily exposed to a higher risk of fraud and irregularity.

### Impact Assessment

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

### Consultation

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No consultation required.

## 1.0 Background

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- 1.1 The NFI is a mandatory biennial data matching exercise, co-ordinated at a national level by the Cabinet Office, designed to help participating bodies detect fraud and error. Computerised techniques are utilised to compare electronic data held by those bodies and identify data matches, which may, following further examination, uncover fraud or error. In Scotland, over 100 public bodies participate in the NFI exercise, which is led by Audit Scotland.
- 1.2 The Senior Responsible Officer for the NFI exercise in the Council is the Executive Director of Finance and Corporate Services, and the Key Contacts work within the Council's Corporate Fraud Team (CFT), reporting operationally to the Service Manager – Audit and Risk Management Services. Key Contact responsibilities include:
- fulfilling the organisation's privacy notice requirements (in conjunction with the organisation's Data Protection Officer or equivalent)
  - ensuring that the data formats guidance and data specifications are followed
  - nominating, in conjunction with services, appropriate users to upload data submissions, investigate the matches and act as the point of contact for other bodies about a match (preferred dataset contact)
  - co-ordinating and monitoring the overall exercise
  - ensuring that outcomes from the investigation of matches are recorded on the web application promptly and accurately
- 1.3 The main data match areas for the 2022/23 NFI exercise, highlighted in the report, were as follows:
- Pensions
  - Payroll
  - Creditor payments
  - Council Tax (Single Person Discounts and Reduction Scheme reliefs)
  - Housing Benefit
  - Housing Tenancy and Waiting Lists
  - Blue Badges
  - Adult Concessionary Bus Travel
- 1.4 Matches were made available to participating bodies, including the Council, for investigation in January 2023. Whilst local reports on pensions specific progress and outcomes are submitted periodically to the Pensions Committee, Audit Scotland publishes a national report following each biennial NFI exercise which summarises key messages and national outcomes recorded.

## 2.0 Audit Scotland National Report

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- 2.1 The most recent national report, published in August 2024, which covers the 2022/23 NFI exercise, summarises key messages and national outcomes recorded for all participating public bodies since the last report was issued in August 2022. The report is attached for noting at Appendix A.
- 2.2 The national report states that the 2022/23 NFI exercise identified overall outcomes (including notional outcomes and forward savings estimates) valued at £21.5m in Scotland, an increase of £6.6m from the previous exercise. The reasons behind the increase in outcomes are detailed in the report.
- 2.3 As at 31 March 2024, the actual pensions overpayments identified as part of the 2022/23 NFI exercise, detailed on page 20 of the national report, were £0.5M (with projected forward savings

amounting to an additional £5.1m), an increase of £0.4m from the 2020/21 NFI exercise. The report indicates that this increase is down to the improved follow-up of pensions matches.

- 2.4 Page 4 of the national report outlines 3 recommendations for improvement for all participating bodies. These relate to participating bodies ensuring that an appropriate level of resource is available to deliver NFI follow-up activities in an efficient and effective manner, in line with local priorities; putting in place arrangements for monitoring follow-up activity, and where it is necessary, seeking to understand reasons for low or nil outcomes; and using the updated NFI Self-Appraisal Checklist as part of planning for the 2024/25 NFI exercise. The national report contains a link to the updated NFI Self-Appraisal Checklist.
- 2.5 The updated Self-Appraisal Checklist has been completed by officers in respect of the 2024/25 NFI exercise and Part A, for those charged with governance, is attached at Appendix B.

### **3.0 2024/25 NFI Exercise**

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- 3.1 The next biennial NFI exercise commences this year. Fife Council has received instructions from the Cabinet Office, via the Audit Scotland NFI Team, surrounding how it should prepare for the 2024/25 NFI exercise and steps have been taken to plan for the extraction of required data sets in line with the detailed specifications and timetable.
- 3.2 The data sets will be uploaded to the NFI Website in line with the National Fraud Initiative in Scotland 2024/25 - Instructions for Participants, commencing 1 October 2024. Data matches will be made available to the Council for investigation from 20 December 2024. Training on how to deal with the data matches along with responsibilities, investigation procedures and how to record outcomes on the NFI Website will be delivered in the meantime, by the CFT.

### **4.0 Conclusions**

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- 4.1 Audit Scotland publishes a national report following conclusion of each biennial NFI exercise, summarising corresponding key messages and national outcomes recorded. The most recent report, which relates to the 2022/23 NFI exercise, was published in August 2024.
- 4.2 The next biennial NFI exercise commences this year and steps have been taken to plan for the extraction of required data sets in line with the detailed specifications and timetable. The data sets will be uploaded to the NFI Website, as required, commencing 1 October 2024.
- 4.3 Part A of the updated NFI Self-Appraisal Checklist, for those charged with governance, has been completed by officers and is attached at Appendix B for noting.

#### **List of Appendices**

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- A. The National Fraud Initiative in Scotland 2024
- B. NFI Self-Appraisal Checklist - August 2024 (Part A)

Report Contact:

Pamela Redpath

Service Manager – Audit & Risk Management Services

Email – [Pamela.Redpath@fife.gov.uk](mailto:Pamela.Redpath@fife.gov.uk)

# The National Fraud Initiative in Scotland 2024



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## Accessibility

You can find out more and read this report using assistive technology on our website [www.audit.scot/accessibility](http://www.audit.scot/accessibility).

## Audit team

The core audit team consisted of:  
Tim Bridle, under the direction of Cornelius Chikwama.

# Key messages

- 1** Fraud against the public sector costs the taxpayer money and can undermine both confidence in government and the delivery of public services. The proactive detection and prevention of fraud using the National Fraud Initiative (NFI) remains vitally important to public sector financial management as public bodies continue to recover from Covid-19 and to deal with the impact of the cost-of-living crisis.
  - 2** NFI savings and outcomes have increased from £14.9 million in 2020/21 to £21.5 million in 2022/23, with increases across most data match areas. However, savings from council tax single person discounts are slightly reduced and additional outcomes in some areas are attributable to changes in estimation methodologies. Overall, it is not clear whether underlying levels of fraud have increased since 2020/21.
  - 3** NFI governance and follow-up arrangements remained sound for most participating bodies over the period covered by the 2022/23 exercise. However, when compared to previous exercises, fewer bodies have been assessed by their auditors as having fully satisfactory arrangements, and there remains scope for some bodies to follow up on data matches more effectively.
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# Recommendations

## Participating bodies should:

- Ensure that an appropriate level of resource is available to deliver NFI follow-up activities in an efficient and effective manner, in line with local priorities.
- Use the NFI Self-Appraisal Checklist as part of planning for the 2024/25 exercise.
- Put in place arrangements for monitoring follow-up activity, and where it is necessary seek to understand reasons for low or nil outcomes.

# 1. Introduction

The proactive detection and prevention of fraud using the National Fraud Initiative (NFI) remains vitally important to public sector financial management as public bodies continue to recover from the Covid-19 pandemic and to deal with the impact of the cost-of-living crisis.

**1.** Fraud against the public sector costs the taxpayer and can undermine both confidence in government and the delivery of public services. The National Fraud Initiative (NFI) is a proactive data matching exercise designed to identify and prevent fraud. It remains vitally important during a time of ongoing financial pressure as public bodies continue to recover from the Covid-19 pandemic and to deal with the impact of the cost-of-living crisis.

**2.** The Public Sector Fraud Authority (PSFA) oversees the NFI across the UK, and Audit Scotland leads the exercise in Scotland, working with a range of Scottish public bodies and their external auditors. The NFI takes place every two years, and this report considers the outcomes from the 2022/23 exercise.

## Statutory basis for NFI

**3.** We carry out the NFI under powers introduced by the Criminal Justice and Licensing (Scotland) Act 2010 and incorporated in [Part 2A of the Public Finance and Accountability \(Scotland\) Act 2000](#). It is important for all parties involved that this exercise is properly controlled, and that data is handled in accordance with the law. The Audit Scotland [Code of Data Matching Practice](#) includes a summary of the key legislation and controls governing the NFI data matching exercise.

## Participating bodies

**4.** In 2022/23, 110 public sector bodies in Scotland participated in the NFI, submitting data and following up on matches. The Scottish Government also submitted data for another 17 central government bodies who share their systems for payroll and/or creditors. Many councils also submit payroll data for their Arm's-Length External Organisations (ALEOs). Across the UK there are over 1,100 participating bodies and data matching takes place across them all.



## Main data match areas in 2022/23

5. The main data match areas for the 2022/23 NFI exercise were:

- Payroll
- Creditor payments
- Council Tax (Single Person Discounts and Reduction Scheme reliefs)
- Pensions
- Housing Benefit
- Housing Tenancy and waiting lists
- Blue Badges (disabled parking)
- Adult concessionary bus travel (new in 2022/23 exercise).

6. The 2022/23 NFI exercise matched new data from His Majesty's Revenue and Customs (HMRC) using powers under the Digital Economy Act (2017).

7. Non-Domestic Rates Small Business Bonus Scheme (NDR SBBS) matching was postponed for the 2022/23 exercise due to the national NDR revaluation exercise in 2023. Results will be reported as part of the 2024/25 exercise.

## Basis for reported outcomes

8. All monetary outcomes included in this report are on a cash basis, prior year totals have not been adjusted to reflect inflation or changes in estimation methodologies since amounts were originally reported. Details of estimate methodologies used can be found at [Appendix](#).

## 2. Overall outcomes

Overall outcomes from the NFI have increased from £14.9 million in 2020/21 to £21.5 million in 2022/23.

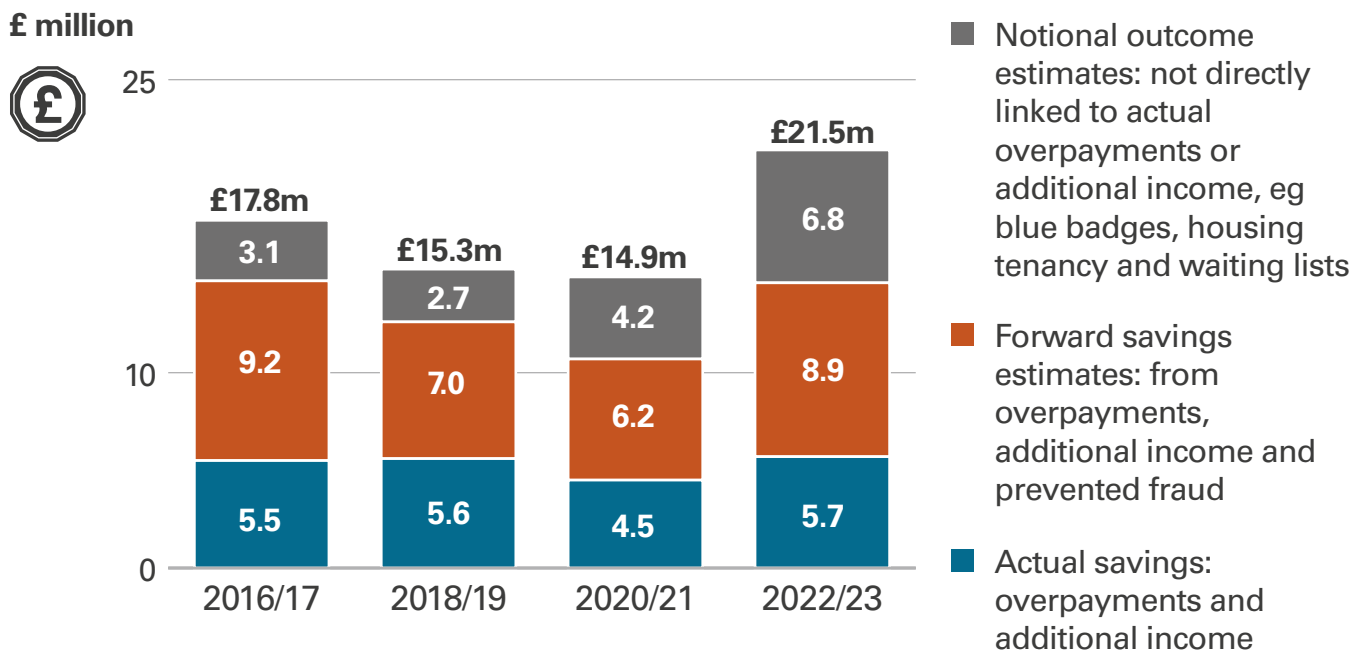
### Overall outcomes by type

9. The value of outcomes from the NFI, recorded since our last report, total £21.5 million (up from the £14.9 million in 2022). The cumulative value of outcomes from the NFI in Scotland since participation started in 2006/07 now stands at around £180 million. [Exhibit 1](#) shows NFI outcomes by type for 2022/23 and the previous three exercises.

### Exhibit 1.

#### NFI outcomes by exercise and type, 2016/17 to 2022/23

Reported outcomes have increased to £21.5 million in 2022/23.



Source: Audit Scotland analysis of NFI outcomes

10. Increased outcomes reported in 2022/23 partly reflect improvement in recording of results as bodies continue to recover from Covid-19. There have also been changes to estimation methodologies which contribute to higher outcomes in some areas (details of methodologies can be found in the [Appendix](#)). It is not possible to extrapolate from these figures that underlying levels of fraud have increased.

## Outcomes by data match area

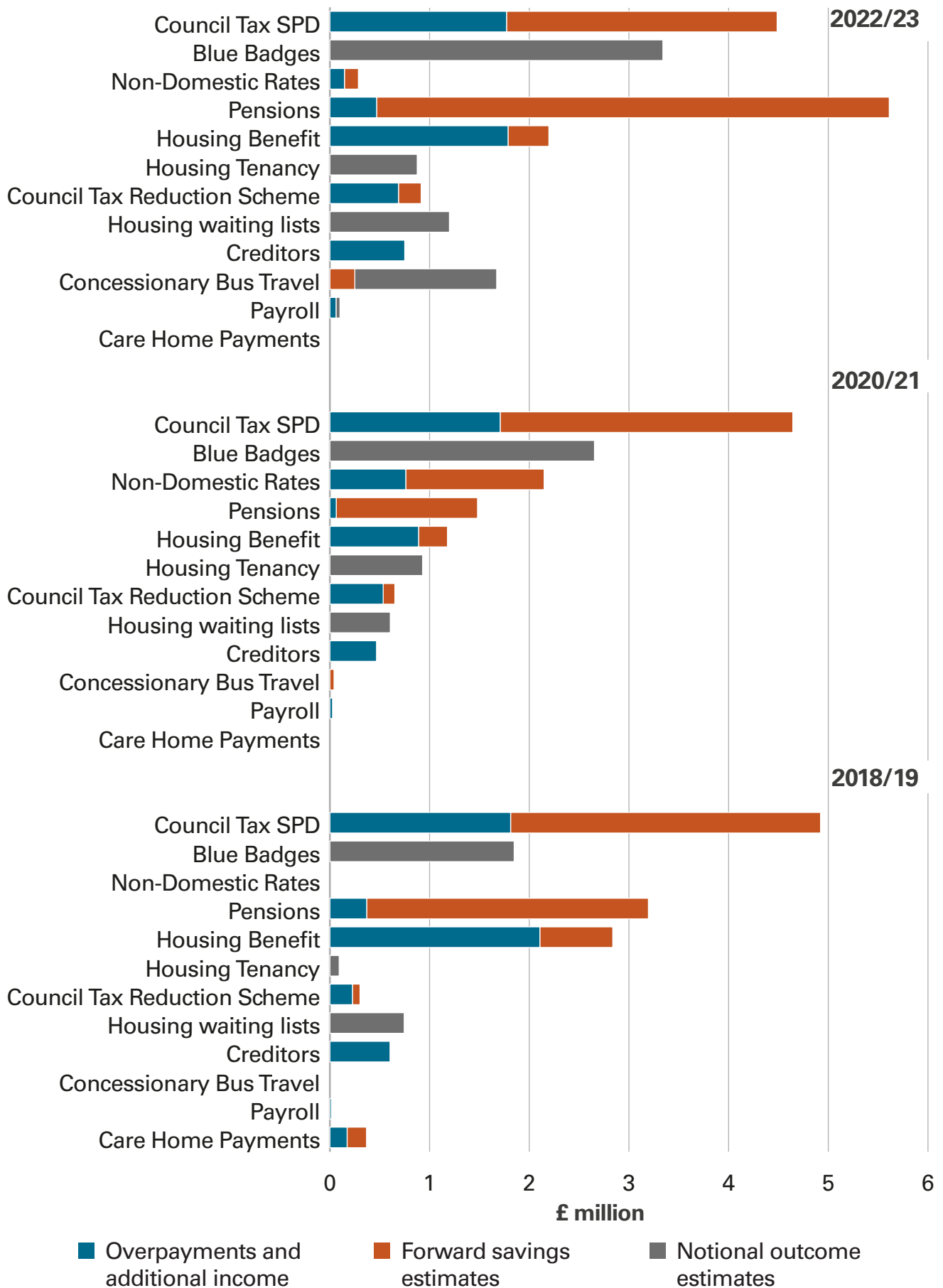
**11.** Most monetary outcomes from the NFI accrue to councils, the Scottish Public Pensions Agency and the Department for Work and Pensions (DWP) in the form of savings arising from council tax, pensions and housing benefits matches.

**12.** Many participating bodies only submit payroll and creditors datasets for matching, and this limits the monetary outcomes available to them. However, overpayments associated with duplicate creditor payments and payroll matches are not insignificant. NFI outcomes analysed by main data match area, are shown for the last three exercises in [Exhibit 2 \(page 9\)](#).

## Exhibit 2.

### NFI outcomes by area and exercise

Most savings arise from Council Tax, Pensions and Housing Benefits matches.



Notes:

1. Non-Domestic Rates Small Business Bonus Scheme data was first submitted for the 2020/21 exercise but did not form part of the 2022/23 exercise due to the revaluation exercise taking place in 2023.
2. Care home payments have not been matched since 2018/19 due to legislative constraints.
3. Adult concessionary bus travel was a pilot exercise in 2020/21 and has been mainstreamed in 2022/23.

Source: Audit Scotland analysis of NFI outcomes

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## Wider benefits of NFI

**13.** The NFI also delivers benefits which are more difficult to quantify. These include its fraud deterrent effect and the financial governance assurance it provides to bodies where no issues are identified ([Exhibit 3](#)).

### Exhibit 3. Non-monetary benefits of NFI



Acts as a deterrent to potential fraudsters



Can provide assurance that systems are operating well



Can identify where system improvements are required

Source: Audit Scotland

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## 3. NFI delivery

NFI governance and follow-up arrangements remain sound for most participating bodies. However, when compared to previous exercises, appointed auditors assessed fewer bodies as having fully satisfactory arrangements.

### Auditor assessments

**14.** NFI governance and follow-up arrangements remain sound for most of the 110 bodies in Scotland that participated in the 2022/23 exercise. However, several bodies have struggled with delivery and there remains some scope for improvement.

**15.** We asked auditors to assess participating body NFI arrangements, and rate them as Green (satisfactory), Amber (mostly adequate) or Red (unsatisfactory). Auditor returns for 2022/23 included an increased number of amber and red ratings [Exhibit 4 \(page 12\)](#).

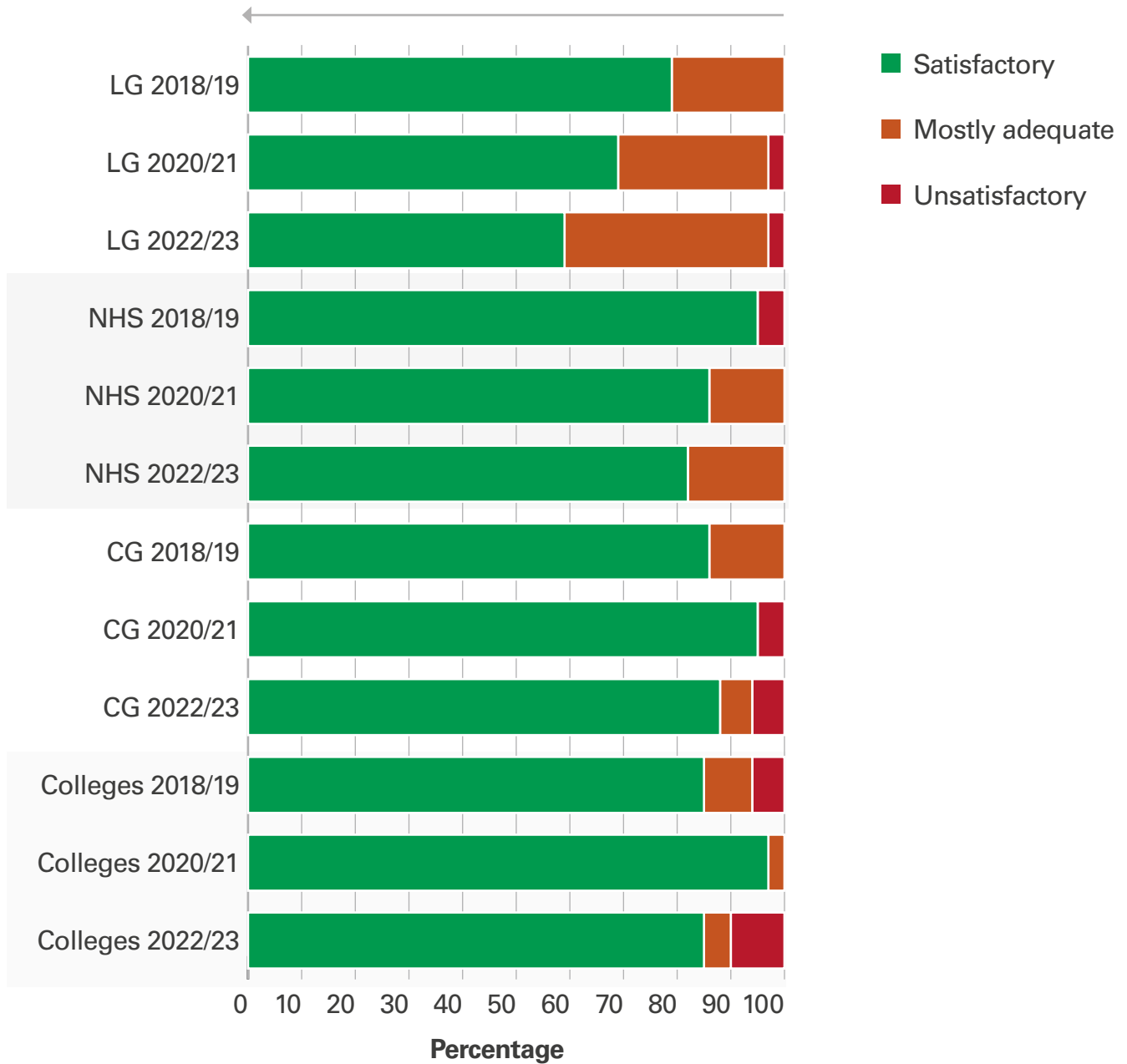
**16.** In most cases amber or red assessments reflect deficiencies with follow-up activity. Participating bodies routinely cited the lack of adequate resources as the main reason for delay or lack of progress with follow-up activity.

**17.** Our NFI Self-Appraisal Checklist includes requirements for participating bodies to consider Leadership, Commitment and Communication. The checklist also asks NFI key contacts and users to consider potential improvements to the efficiency and effectiveness of follow-up activity. The checklist can be found on our Counter Fraud [webpage](#) and has been updated for the 2024/25 exercise.

## Exhibit 4.

### Auditor assessments of NFI delivery arrangements

More bodies received amber and red assessments in 2022/23.



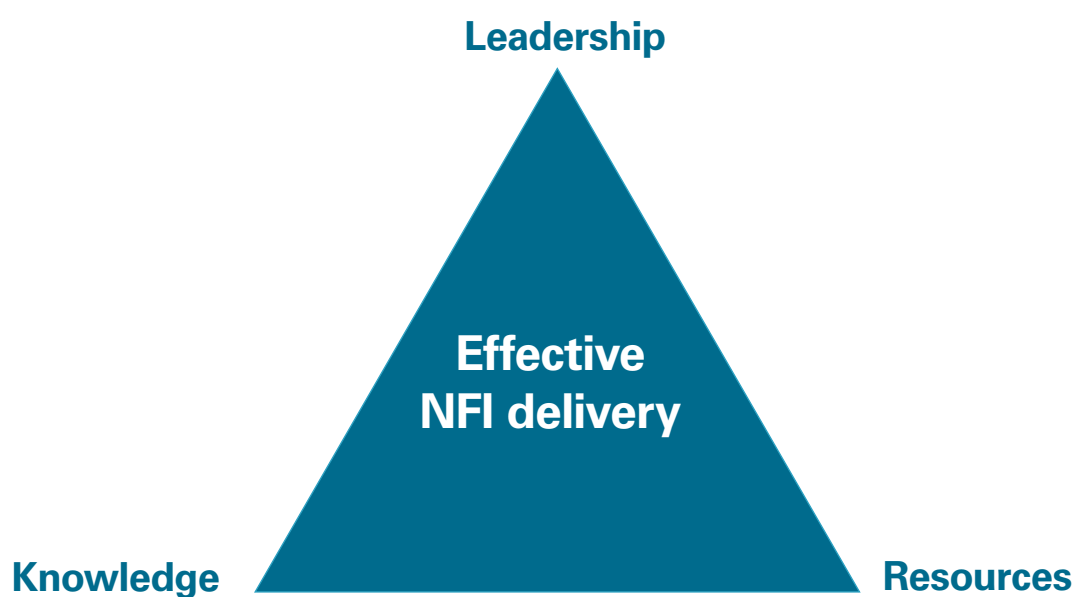
Source: Audit Scotland analysis of Auditor Returns

**18. Exhibit 5** shows the main determinants of successful NFI delivery that participating bodies should be focusing on to strengthen their arrangements.

## **Exhibit 5.**

### **NFI participation – main determinants of success**

Successful delivery of NFI requires a clear commitment to a well-thought-out approach that optimises the use of available resources to follow up matches appropriately.



Source: Audit Scotland

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**19.** Audit Scotland will continue to work with bodies to support effective and efficient delivery of NFI through its ongoing engagement activities.



## 4. Specific match areas

NFI outcomes have increased in most data match areas in 2022/23. However, savings from council tax single person discounts decreased slightly, and increases in some areas are partly due to changes in estimation methodologies.

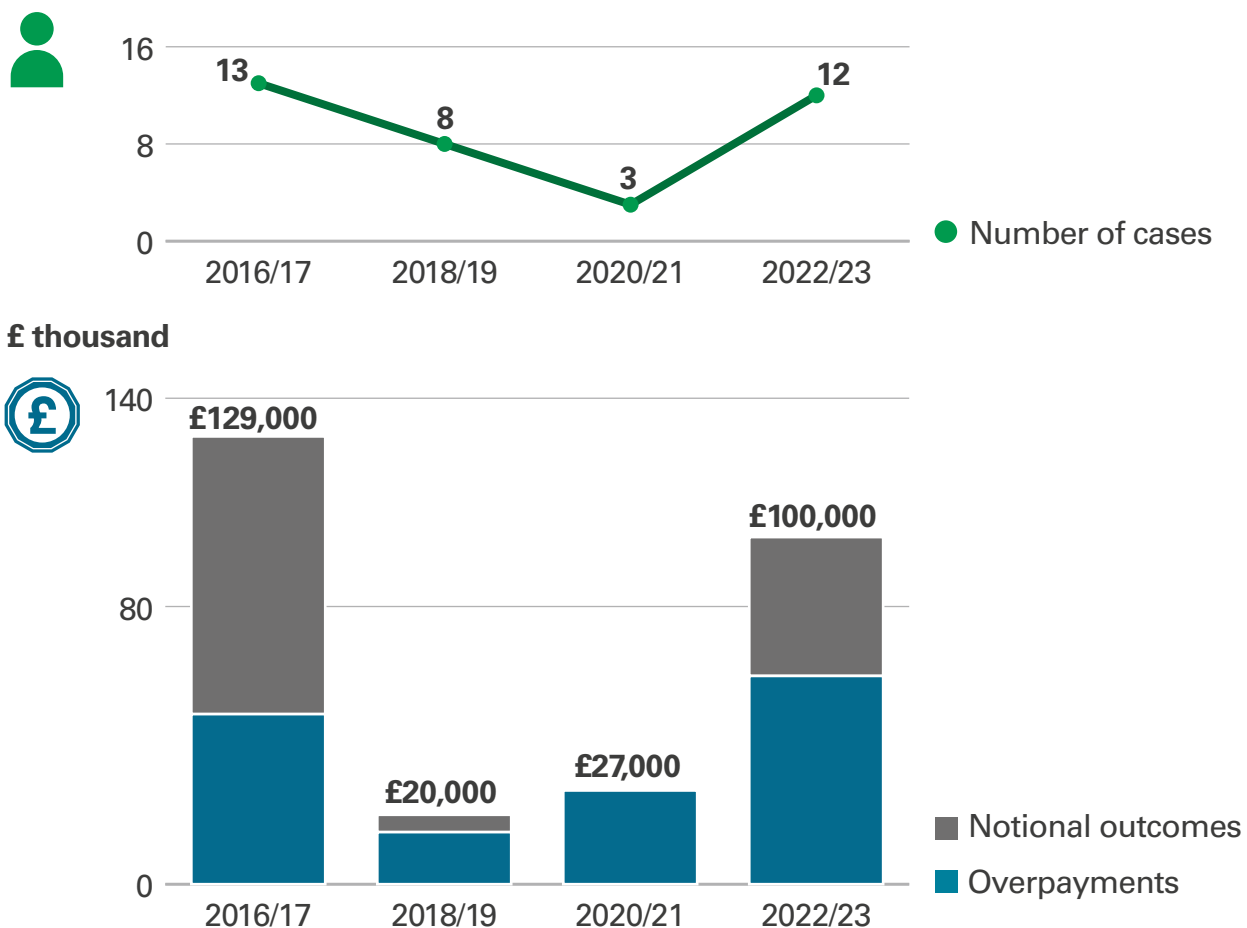
### Payroll

**20.** The number of payroll and multi-contract working frauds identified as a result of the NFI has increased. There were 12 cases identified in 2022/23. This is the highest number since 2016/17, which is the last exercise for which immigration data was matched. Overpayments and case numbers for the 2022/23 exercise are shown alongside those for the three previous exercises at [Exhibit 6](#).

### Exhibit 6.

#### Payroll outcomes and case numbers by NFI exercise

There has been an increase in the level of identified fraud in 2022/23.



Note. Notional outcomes of £5,685 per case are allocated where staff resign or have been dismissed ([Appendix](#)).

Source: NFI management information

## Creditor payments

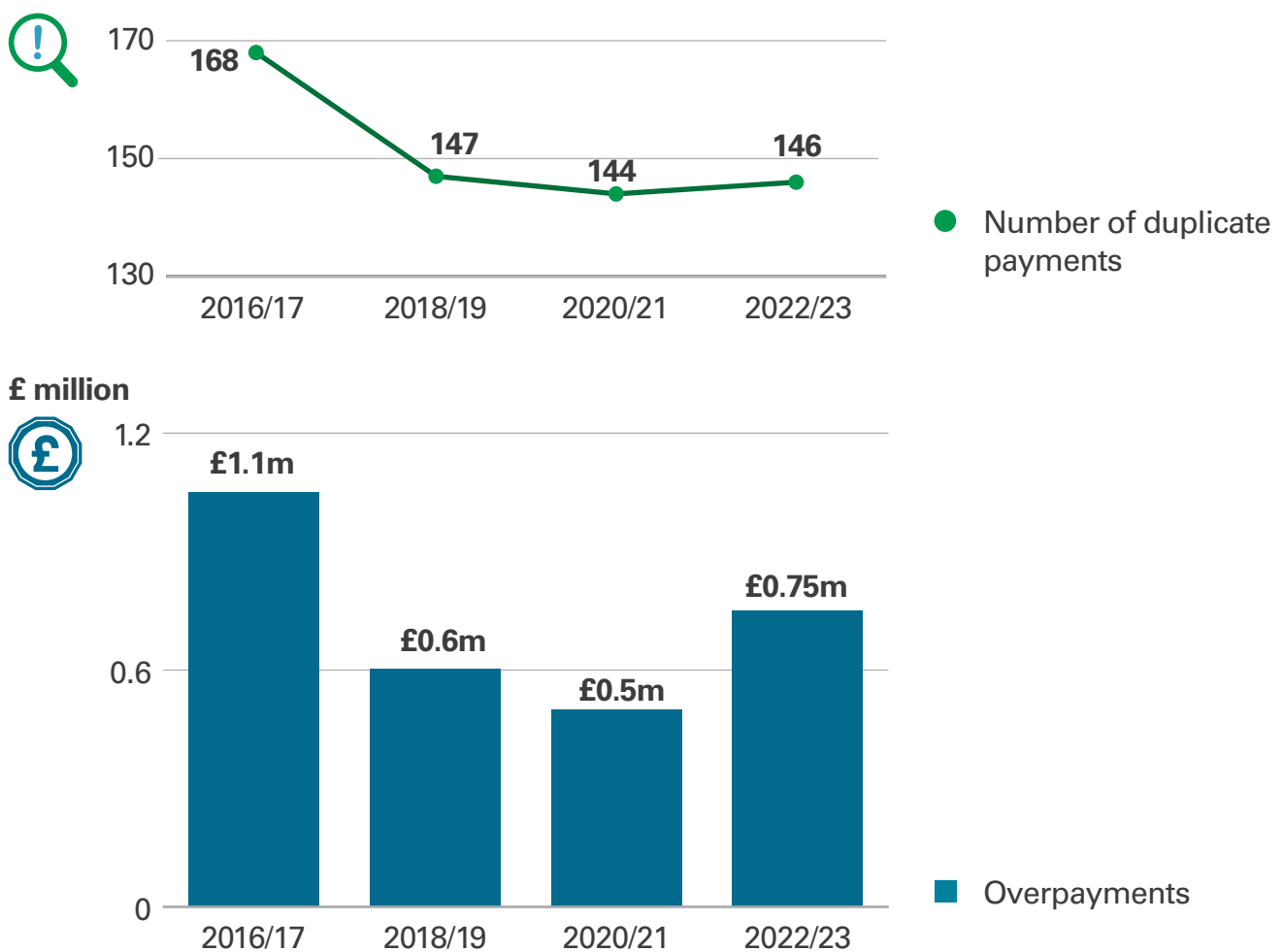
**21.** Participating bodies submit details of payments made to people or organisations supplying them with goods and services. Data is matched by the NFI to identify potential duplicate payments. Bodies identifying duplicate payments often refresh procedures and tighten controls to reduce future risk.

**22.** In 2022/23 outcomes worth £0.75 million were identified from 146 duplicate payments across 31 bodies. This is broadly in line with previous exercises as shown in [Exhibit 7](#).

### Exhibit 7.

#### Duplicate creditor payment savings and case numbers by NFI exercise

£0.75 million of recoverable duplicate creditor payments was identified in 2022/23.



Source: NFI management information

## Adult Concessionary Bus Travel

**23.** Following a successful pilot exercise in 2020/21, adult concessionary bus travel mortality screening was rolled out to councils in 2023. The National Entitlement Card Project Office, working in partnership with councils, submitted details of all live travel passes for matching.

**24.** The NFI identified 99,600 travel passes that belonged to holders who had died. Transport Scotland was able to check usage of these passes and identified that 1,075 had been used after the date of death.

**25.** The full fare value of fraudulent bus trips associated with these passes amounted to £0.31 million, with a cost to Transport Scotland of around £0.18 million, based on the applicable reimbursement rates to bus companies.

**26.** The cancellation of these passes will prevent future fraudulent use with an estimated value of £0.45 million (based on £420 per travel pass used fraudulently, see [Appendix \(page 26\)](#)). The resultant saving to Transport Scotland is estimated at around £0.25 million based on current reimbursement rates.<sup>1</sup>

## Council Tax Single Person Discounts

**27.** People living on their own, or in some cases with adults who can be 'disregarded', are eligible for a 25 per cent single person discount (SPD) on their annual council tax bill. The NFI matches SPD recipients to the electoral register and to other datasets to identify where other adult residents have not been declared on applications, have subsequently turned 18 or have moved in.

**28.** Councils withdrew £1.8 million worth of SPDs because of the NFI. The additional income, based on a forward projection of annual savings for two years, in line with the Cabinet Office methodology, equates to an additional £2.7 million. These amounts are shown together and alongside savings for the previous three exercises in [Exhibit 8 \(page 17\)](#).

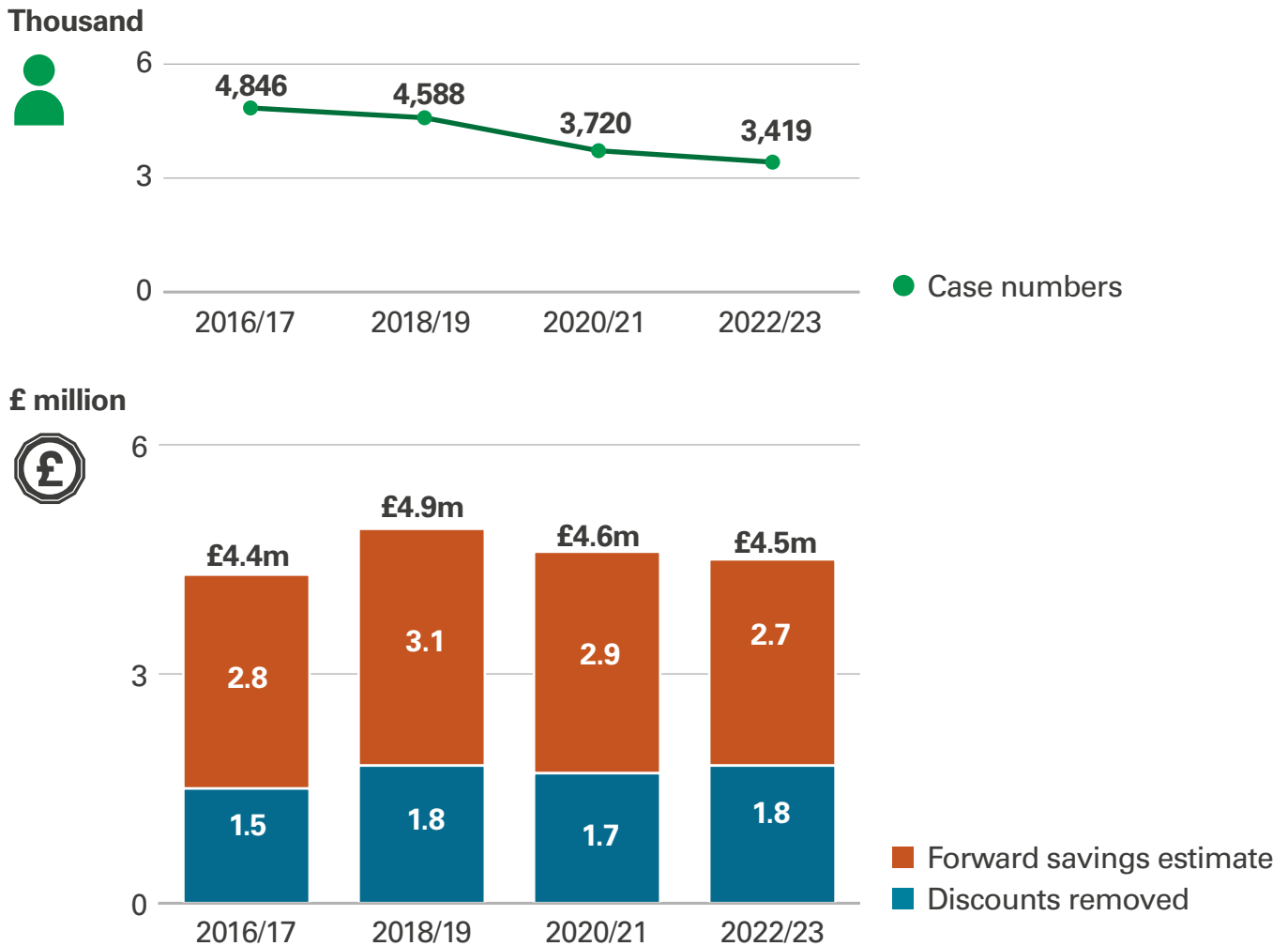
**29.** Only 19 councils recorded NFI activity in relation to SPDs, as more councils are now making use of third party providers for data matching and follow-up. Seven councils using third-party providers now record no NFI outcomes (an increase of two from the previous exercise).

<sup>1</sup> Total outcomes for this area ([Exhibit 2](#)) includes a notional amount of £0.91 million relating to the pilot exercise in 2020/21 (based on the Cabinet Office methodology at the time which applied £550 to each travel pass cancelled).

## Exhibit 8.

### Council Tax SPD savings and case numbers by NFI exercise

Case numbers and savings from single person discounts decreased in 2022/23.



Source: NFI management information

### Council Tax Reduction Scheme (CTRS)

**30.** Council tax reduction is available to low-income households in Scotland. The NFI matches CTRS data to other datasets, such as payroll and pensions, for example, to identify undeclared income.

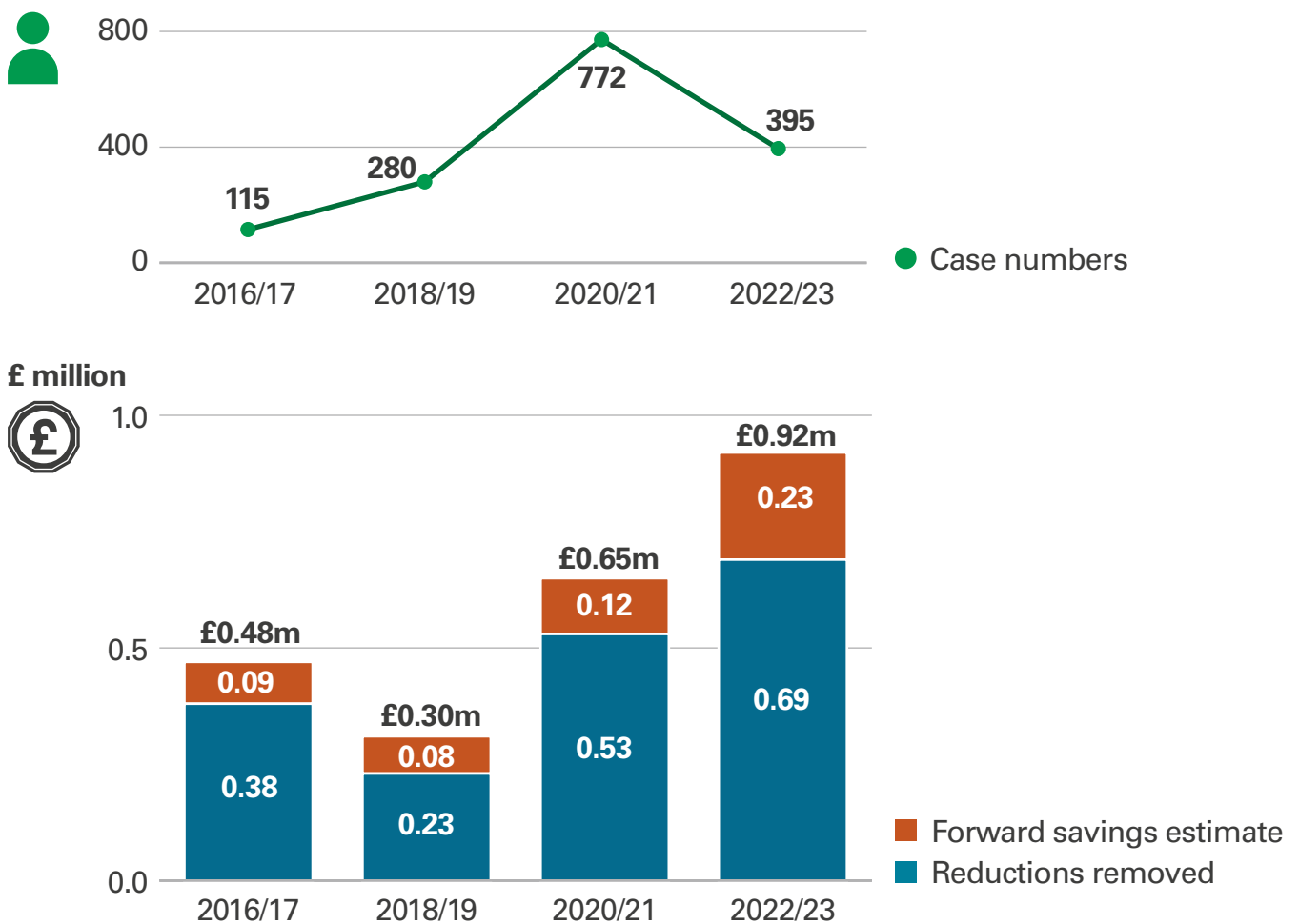
**31.** In 2022/23, additional council tax income of £0.92 million was identified because of follow-up on NFI matches (up from £0.65 million in 2020/21). Savings and case numbers are shown alongside those from the previous three NFI exercises in [Exhibit 9 \(page 18\)](#).

**32.** Actual additional income from the removal of council tax reductions has increased, as have forward savings estimates. The forward savings estimate methodology has, however, changed with savings now based on 33 weeks, compared to the 21 weeks previously used.

## Exhibit 9.

### Council Tax Reduction Scheme savings and case numbers by NFI exercise

Total potential savings from CTRS have increased to £0.92 million in 2022/23.



Source: NFI management information

**33.** Only 18 councils identified savings from CTRS, with most savings arising from matches to pensions (around 40 per cent) and payroll (around 30 per cent), where income had not been declared.

## Housing Benefits

**34.** Housing benefits (HB) help people on low incomes pay their rent. HBs in payment continues to decrease as more benefit recipients move on to universal credit.

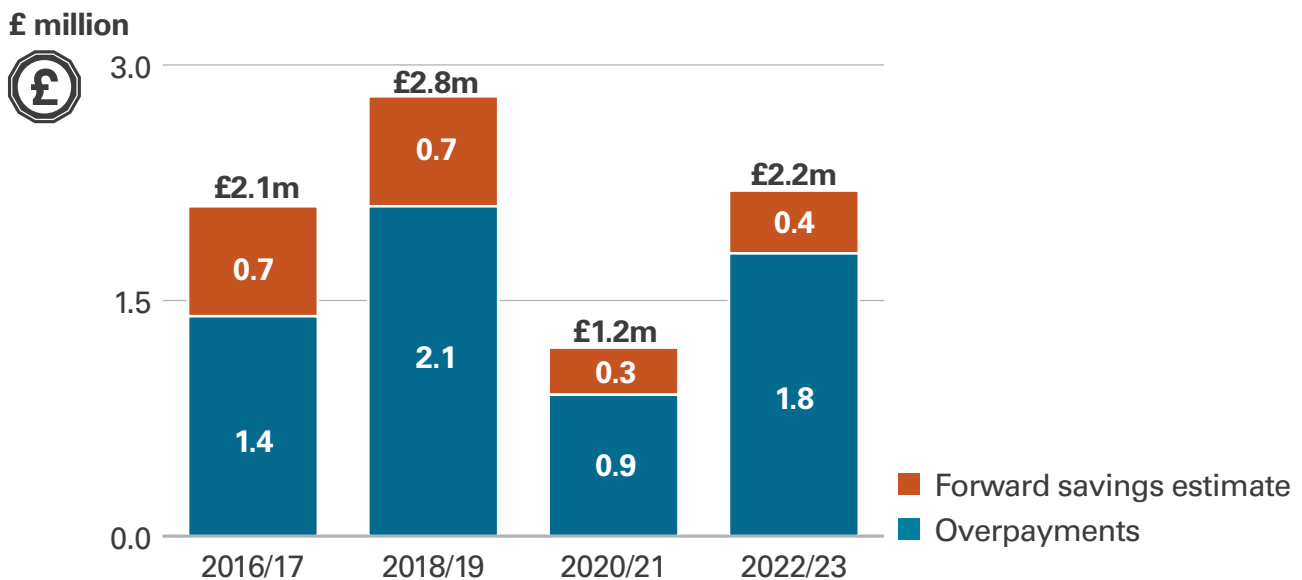
**35.** The DWP's Verify Earnings and Pensions alerts service has also impacted HB savings from NFI as alerts are sent directly to councils for investigation, allowing them to follow up outside the NFI process. We no longer match HB to payroll and pension as part of the NFI.

**36.** There has, however, been an increase in reported savings in 2022/23 due to the inclusion of late DWP savings from the 2020/21 exercise which was affected by Covid-19. [Exhibit 10](#) shows the HB overpayments and forward savings reported for the current and previous three NFI exercises.

### Exhibit 10.

#### Housing Benefit savings by NFI exercise

2022/23 includes significant late DWP savings from the 2020/21 exercise.



Source: NFI management information

**37.** HB matches involving suspected fraud are referred to the DWP for investigation and resultant savings are not attributed back to councils. In 2022/23 almost £2 million of savings arose from these referrals. £0.2 million of savings was identified locally by 17 councils, largely from the follow-up of matches to student loans.

## Pensions

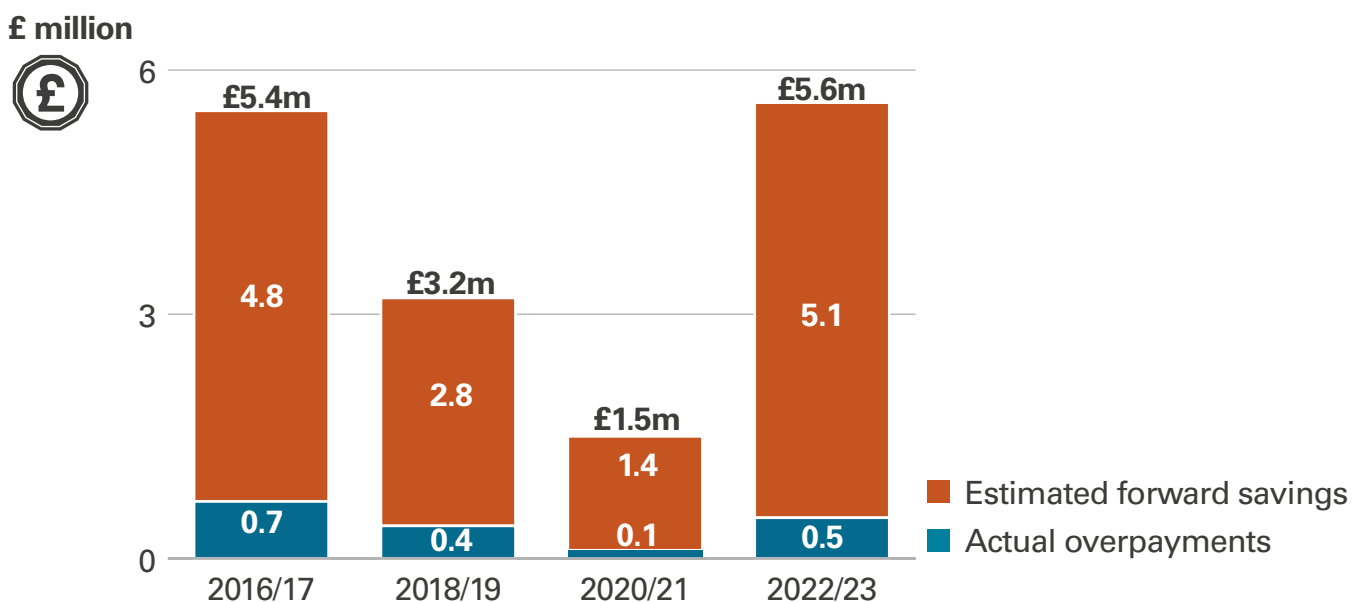
**38.** The NFI is an efficient and effective way for the Scottish Public Pensions Agency (SPPA) and councils that administer pensions to check that they are only paying pensions to people who are alive.

**39.** The follow-up of matches has led to the identification of actual overpayments of £0.5 million as at 31 March 2024, with projected forward savings amounting to a further £5.1 million. These savings are shown along with those reported for previous exercises in [Exhibit 11](#).

### Exhibit 11.

#### Pensions savings by NFI exercise

Follow-up activity and recording of outcomes in 2020/21 was impacted by Covid 19.



Source: NFI management information

**40.** Forward savings are estimated based on a potential payment period from the date overpayments are identified until the date the deceased pensioner would have reached the age of 85 (consistent with actuarial assumptions used to value public sector pension schemes).

**41.** In 2022/23 we have seen improved follow-up of pensions matches. However, not all overpayments identified had been recorded by 31 March 2024. Late savings will be reported as part of the 2024/25 exercise as a result.

## Blue Badges

**42.** The Blue Badge scheme allows individuals with mobility problems to park for free at on-street parking meters, in 'pay and display' bays, in designated Blue Badge spaces, and on single or double yellow lines in certain circumstances. Badges are sometimes used by unauthorised persons after the badge holder has died. Not only is this an offence under the Disabled Persons' Parking Badges (Scotland) Act 2014, but it may also result in parking spaces being denied to people who legitimately use the Blue Badge scheme.

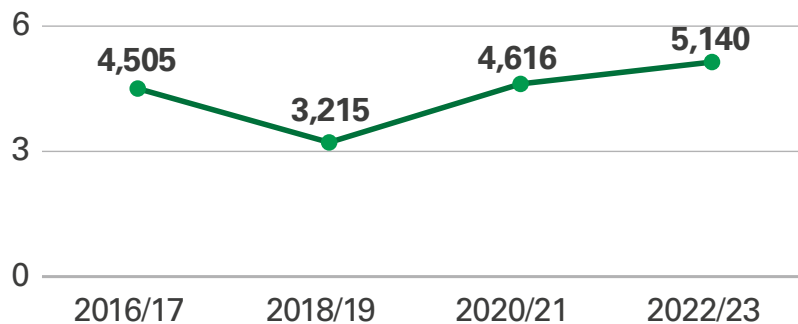
**43.** The NFI matches Blue Badges issued to records of deaths, enabling badges to be cancelled. The number of badges cancelled in 2022/23 has gone up to 5,140, as shown at [Exhibit 12](#).

### Exhibit 12.

#### Blue Badges outcomes and case numbers by NFI exercise

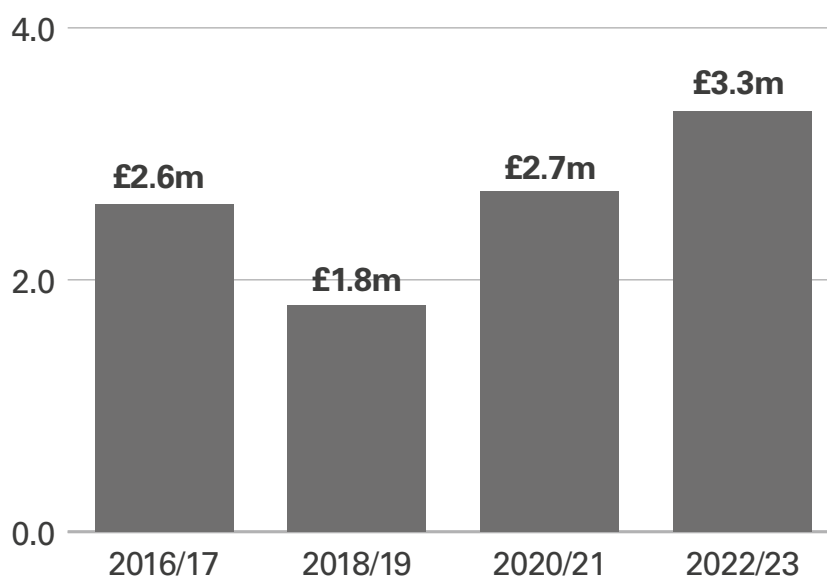
There have been higher levels of recorded cancellation in 2022/23 than for recent exercises.

Thousand



● Badges cancelled

£ million



■ Notional outcomes

Source: NFI management information



**44.** The increased number of cancellations, together with a new estimate multiplier, has resulted in a higher notional outcome value. The Cabinet Office estimation methodology now applies £650 per badge cancelled (compared to £575 per badge in 2020/21).

## Housing Tenancy

**45.** With reported housing shortages and high levels of homelessness, tenancy fraud is increasingly an issue for councils. Where fraudulent subletting exists, it means that properties are not available to house people who are in most need and this can be costly to councils.

**46.** The NFI uses council housing tenancy data to identify possible cases where tenants may have sublet their property. It also helps identify cases where the tenant has died, and the property is either empty or has other individuals living in it.

**47.** As a result of the 2022/23 exercise, councils were able to identify and recover ten properties. A housing association property was also identified and made available for social housing. The numbers of properties recovered along with the notional outcome estimates for the last four exercises are shown at [Exhibit 13 \(page 23\)](#).

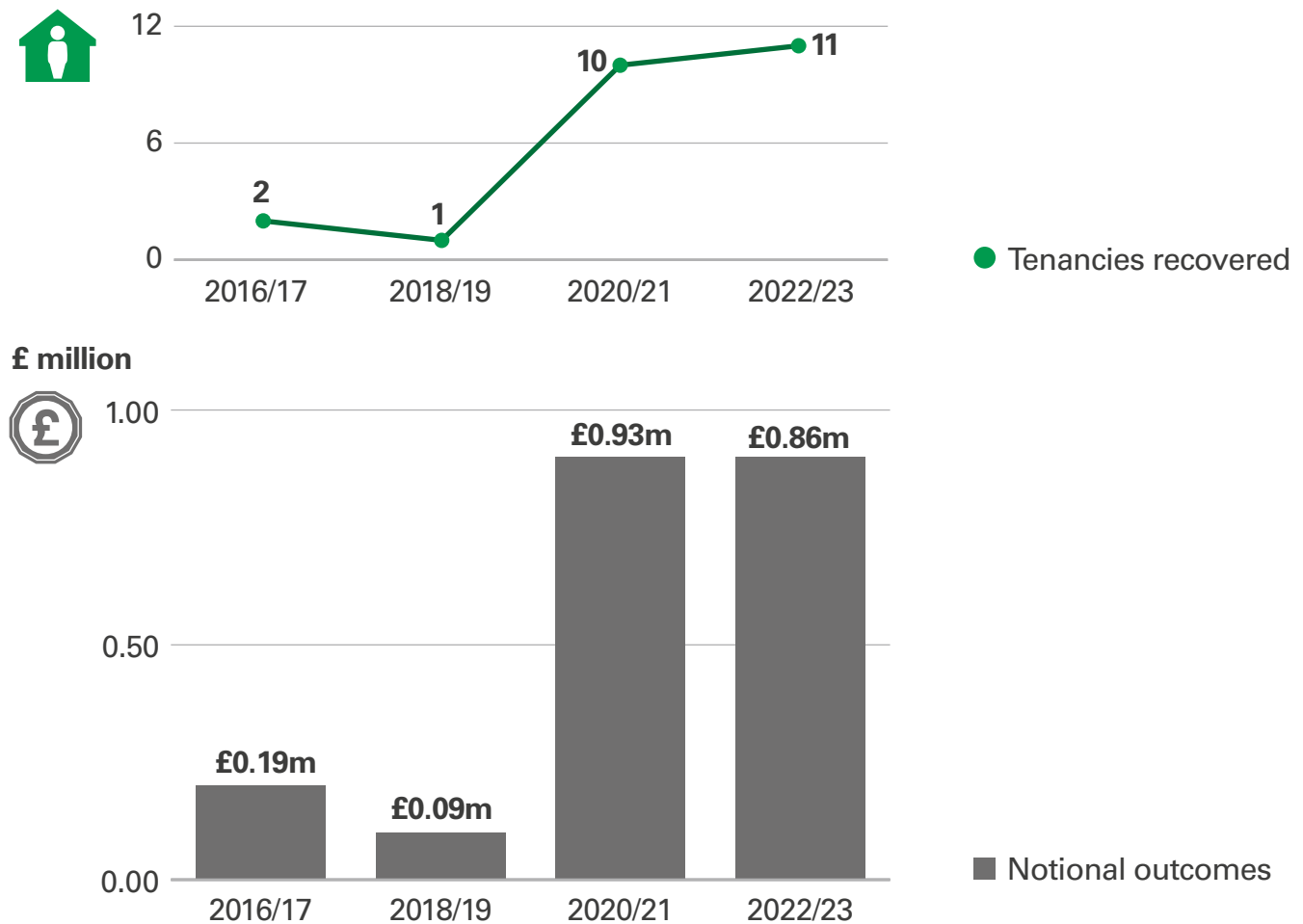
**48.** Notional outcomes of £78,300 are allocated per property recovered (£93,000 in 2020/21). This is based on an average four-year fraudulent tenancy and includes estimated costs of temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies.

**49.** In addition to recovery of properties, NFI has enabled several councils to update tenancy details where there has been legitimate succession following a bereavement.

## Exhibit 13.

### Housing Tenancy outcomes and case numbers by NFI exercise

Tenancies recovered as a result of NFI have remained in double figures in 2022/23.



Source: NFI management information

## Housing Waiting Lists

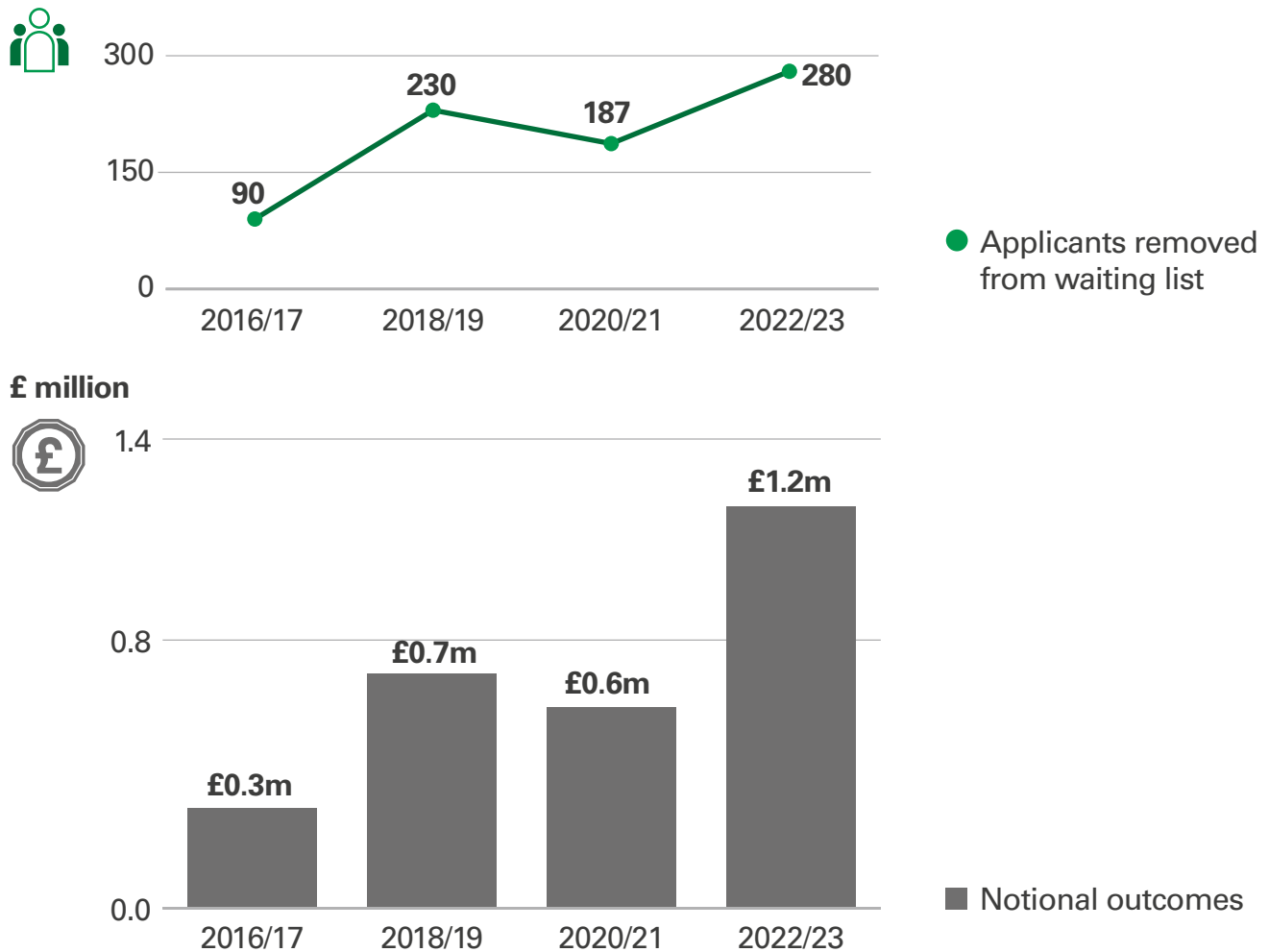
**50.** Councils maintain waiting lists for council housing, and in some cases for all social housing in their area. The NFI matches waiting list data to housing tenancy data and other data sets, enabling undisclosed changes in circumstances to be picked up. This enables removal of ineligible applicants from the waiting list, stops inappropriate allocations, and accelerates allocations to people in genuine need of social housing.

**51.** In 2022/23 we have seen an increase in the number of applicants removed from waiting lists as a result of NFI. Notional outcomes have also increased as shown in [Exhibit 14 \(page 24\)](#).

## Exhibit 14.

### Housing Waiting List outcomes and case numbers by NFI exercise

More applicants have been removed from the waiting list in 2022/23 than in previous exercises.



Source: NFI management information

**52.** Notional outcomes are attributed to applicants removed from the waiting list on the basis that social housing could have been allocated inappropriately. The estimation methodology allocates £4,283 per case removed from the waiting list (an increase from £3,240 per application in 2020/21).

# 5. Pilot exercises and future developments

Social Security Scotland took part in a pilot data-matching exercise which identified limited fraud and error. We are also exploring the possibility of involving wider public sector bodies in the 2024/25 NFI exercise on a voluntary basis.

## Social Security Scotland – benefits pilot 2022

**53.** In 2022 a pilot exercise was undertaken with Social Security Scotland (SSS) to identify any instances where claimants received support but were not residing in Scotland, or where claimants appear to have claimed benefits more than once (eg, from more than one Scottish address). The pilot exercise included payments made in the three-month period from April to June 2021.

**54.** Around 45,000 lines of data relating to benefit payments were submitted for matching, resulting in the identification of 367 claimants who appeared to be residing outwith Scotland. Following review and corroboration of addresses by SSS there were just 17 cases where claimants were not entitled to benefits. Overpaid benefits of £16,450 were identified, a further £20,000 could have been paid out in relation to these claims, over the remaining eligibility periods.

**55.** Despite the identification of fraud and error, the number and value of cases was not deemed sufficient to justify the inclusion of this match type in the main biennial NFI exercise in 2022/23. The intention is to run another pilot in 2024/25 which may also include Adult Disability Payments for the first time.

## Inclusion of bodies on a voluntary basis

**56.** There are potential benefits from expanding the NFI to include more public sector bodies in Scotland. We invited Scottish housing associations and universities to participate in the 2024/25 NFI on a voluntary pilot basis.

**57.** While no universities have volunteered for participation, we are working with several interested housing associations. At this time, it is unclear how many of those interested will actually participate.

# Appendix

## Estimated outcomes methodologies

### **In some cases NFI outcomes include an estimated element for forward savings or for where no monetary value can be recovered**

The NFI uses the term 'outcomes' to refer to the financial value of fraud, error and overpayment that can be attributed to NFI data matching. In some cases NFI outcomes include an estimated element which seeks to capture:

- The value of loss from a fraud or error detected because of an NFI match, in instances where no monetary value can be recovered - such as the value of recovering a property from a tenant who has fraudulently obtained that tenancy. We have called these 'notional outcome estimates' in our report.
- The value of any future losses that may have been incurred without intervention as a result of an NFI match. For example, the value of future overpayments prevented through detecting and stopping a fraudulent or erroneous housing benefit claim. We have called these 'forward savings' in our report.

Most NFI datasets have a methodology to calculate estimated outcomes. These methodologies account for:

- data relevant to the fraud problem, including national published data and data from previous NFI cases
- the policy context relative to the fraud problem
- any regional variances that may result in the generation of estimate methodologies specific to a region or area
- alignment where possible with relevant estimated savings methodologies used in other central government departments.

All methodologies are reviewed prior to the start of each new NFI exercise. Any changes are reviewed by the Cabinet Office NFI Governance Board and approved by the Cabinet Office Fraud Prevention Panel. This panel consists of cross government counter fraud experts (including representatives from DWP, HMRC, NHS, MOD, BEIS, DFID, NAO, etc.) who review and challenge, where necessary, methodologies for calculating the estimated value of fraud prevention initiatives across government departments.

Once approved, these methodologies are built into the NFI web application to enable the estimated outcomes element to be automatically generated.

A summary of the outcomes methodology calculations applied to NFI datasets is set out in the following table:

<b>Data match</b>	<b>Basis of calculation of forward savings and estimated outcomes</b>
<b>Council tax single person discount</b>	Forward savings – Annual value of the discount cancelled multiplied by two years.
<b>Council tax reduction scheme</b>	Forward savings – Weekly change in council tax discount multiplied by 33 weeks (increased from 21 weeks in 2020/21).
<b>Housing benefit</b>	Forward savings – Weekly benefit reduction multiplied by 21 weeks.
<b>Pensions</b>	Forward savings – Annual pension multiplied by the number of years until the pensioner would have reached the age of 85.
<b>Housing Tenancy</b>	Notional outcomes – £78,300 per property recovered, based on average four-year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies (reduced from £93,000 in 2020/21).
<b>Housing waiting lists</b>	Notional outcomes – £4,283 for each case based on the annual estimated cost of housing a family in temporary accommodation, the duration a fraud may continue undetected and the likelihood a waiting list applicant would be provided a property (increased from £3,240 in 2020/21).
<b>Blue Badges</b>	Notional outcomes – Number of badge holders confirmed as having died multiplied by £650 to reflect lost parking and congestion charge revenue (increased from £575 in 2020/21).
<b>Concessionary bus travel</b>	Forward savings – Number of bus passes used fraudulently multiplied by £420. Based on average fraudulent use and reflecting two years forward use.
<b>Payroll</b>	Notional outcomes – £5,685 for each employee dismissed or resigns as a result of NFI matching. (up from £5000 in 2020/21).

# The National Fraud Initiative in Scotland 2024



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit.scot](mailto:info@audit.scot)  
[www.audit.scot](http://www.audit.scot)

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## NFI Self-Appraisal Checklist 2024

Part A: For those charged with governance	Yes/no/partly	Is action required ?	Who by and when ?
<b>Leadership, commitment and communication</b>			
<p>1. Are we aware of emerging fraud risks and have we taken appropriate preventative and detective action?</p>	<p>Yes</p> <p>We receive alerts surrounding emerging risks from various agencies / national groups, e.g. Police Scotland, National Anti-Fraud Network (NAFN), Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), Scottish Local Authorities Investigators Group (SLAIG), Audit Scotland and circulate them as appropriate to key members of staff in the Council for awareness / potential action.</p> <p>Staff in the Corporate Fraud Team actively participate in professional networks and groups.</p> <p>There is a Council Fraud Strategy &amp; Response Plan and a Fraud Risk - Areas for Review Plan.</p> <p>Members of the Standards, Audit and Risk Committee have received induction training, which included Corporate Fraud.</p> <p>Relevant national reports, including those compiled by Audit Scotland, are reviewed and acted upon.</p> <p>Corporate Fraud</p>	<p>No action required.</p>	



	<p>awareness raising sessions, including fraud risks, were developed and delivered during 2023/24. In addition, a new mandatory Corporate Fraud e-learning package was developed and launched by the Council in December 2023.</p>		
<p>2. Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?</p>	<p>Yes</p> <p>Fife Council is committed to participating in the NFI exercises. These exercises are included as anti-fraud measures within the Strategy and Response Plan for the Prevention and Detection of Fraud and Corruption, agreed by the former Standards &amp; Audit Committee.</p> <p>Updates on NFI exercises, including outcomes, are reported to management and Standards, Audit and Risk Committee.</p> <p>The Chief Executive, Executive Directors and Heads of Service are notified of the NFI exercise.</p> <p>Participation in NFI exercises has been communicated to staff via an Outlook Administrator e-mail and Fife Council's Intranet and Internet pages. <a href="#">National Fraud Initiative - NFI   Fife Council</a>.</p> <p>NFI Key Contacts are members of staff in the Corporate Fraud Team.</p>	<p>No action required.</p>	

<p>3. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error? And do we make reference to NFI in our governance codes and statements?</p>	<p>Yes</p> <p>As 2 above, NFI is included in our Strategy and Response Plan for the Prevention and Detection of Fraud and Corruption.</p> <p>The Council's Local Code of Corporate Governance refers to the Fraud Strategy and Response Plan within the evidence to support two of the seven Core Principles outlined in the CIPFA Delivering Good Governance in Local Government Framework; more specifically, Core Principle 1 - Behaving with Integrity, Demonstrating Strong Commitment to Ethical Values and Respecting the Rule of Law; and Core Principle 6 - Managing Risks and Performance through Robust Internal Control and Strong Public Financial Management.</p> <p>The Annual Governance Statement specifically mentions the Council's participation in the NFI exercise and provides some information about what it is, as well as the related benefits.</p>	<p>No action required.</p>	
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<p>4. Does our Key Contact have sufficient authority and time to ensure that NFI is delivered effectively?</p>	<p>Yes</p> <p>The Key Contacts in Fife Council co-ordinate and monitor the Council's participation in the NFI exercise in line with paragraph 1.2 of this report.</p> <p>To support Key Contacts, staff resources are made available throughout the Council to upload datasets, investigate / follow-up data matches.</p> <p>One of the Key Contacts, the Corporate Fraud Officer, is retiring in November this year and the post is currently advertised. As an interim measure, to ensure continuity of service and ongoing support for services re the NFI, a member of staff from Audit and Risk Management has been assigned to the Corporate Fraud Team and is in the process of being trained.</p>	<p>No action required.</p>	
<p>5. Has the approach to follow up of different NFI match types been clearly set out and reported as part of the bodies NFI planning process?</p>	<p>Yes</p> <p>In line with previous years, appropriate training / guidance will be provided to staff groups who will be working on the different types of matches so that corresponding follow up approaches and expectations are clear.</p>	<p>No action required.</p>	
<p>6. Are NFI progress and outcomes reported regularly to senior management and elected / board members (e.g. the audit committee or equivalent)?</p>	<p>Yes</p> <p>As 2 above, outcomes and progress with NFI are reported to Standards, Audit &amp; Risk Committee and management.</p> <p>Any concerns surrounding progress with</p>	<p>No action required.</p>	

	<p>the NFI exercise would be escalated to senior management. This has not arisen to date.</p>		
<p>7. Where we have not submitted data or used the matches returned to us (e.g. council tax single person discounts), are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?</p>	<p>Yes</p> <p>The Council submits all mandatory data sets and, with the exception of Council Tax Single Person Discount (CTSPD) matches, uses the matches returned.</p> <p>In relation to CTSPDs, the Council utilises a third party, Datatank, to carry out a review using data from a credit reference agency. Results from the Datatank exercise are reported to Standards, Audit and Risk Committee and management at the same time as NFI reporting.</p>	<p>No action required.</p>	
<p>8. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?</p>	<p>Yes</p> <p>The NFI Key Contacts report operationally to the Service Manager, Audit &amp; Risk Management. The Corporate Fraud Team Lead is also a qualified and experienced internal auditor.</p> <p>Explanations for and actions arising from the outcomes are discussed with the Service Manager, Audit &amp; Risk Management and are followed up where necessary.</p> <p>The Council's approach to NFI is also subject to an annual review by External Audit.</p>	<p>No action required.</p>	
<p>9. Do we review how frauds and errors arose and use this information to improve our internal controls?</p>	<p>Yes</p> <p>Explanations for and actions arising from the outcomes are reported to Standards, Audit &amp; Risk</p>	<p>No action required.</p>	

	<p>Committee and management, as at 2 above.</p> <p>Weaknesses in internal controls will also be discussed, with a view to making improvements, with the Services and the Service Manager, Audit &amp; Risk Management.</p> <p>If we feel there is a fraud risk that needs to be investigated further, we will consider the best course of action to do that e.g. audit plan.</p>		
<p><b>10.</b> Do we need and have access to fraud investigation officers to enable frauds to be followed up fully?</p>	<p>Yes</p> <p>There is currently a part-time Corporate Fraud Lead and a full time Corporate Fraud Officer.</p> <p>Agreement was obtained during 2023/24 to establish a new, full time Corporate Fraud Lead Officer post and steps are being taken to progress this.</p>	No action required.	
<p><b>11.</b> Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (e.g. successful prosecutions)?</p>	<p>Yes</p> <p>Externally, reports are published via the Standards, Audit and Risk Committee papers. Internally, fraud examples are communicated via the mandatory Corporate Fraud e-learning and awareness raising sessions.</p>	No action required.	