



**Fife
Pension Fund**

Administered by Fife Council

Fife Pension Fund Annual Report & Accounts 2021-22



Fife Pension Fund Annual Report & Accounts 2021-22

Contents	Page
Management Commentary	2
Fife Pension Fund Annual Governance Statement	14
Governance Compliance Statement	21
Actuarial Statement	25
The Pension Fund Accounts	
- Remuneration Report	27
- Statement of Responsibilities	27
- Fund Account	29
- Net Assets Statement	30
- Notes to the Accounts	31
Membership of the Fund	55
Appendix 1 – Statement of Investment Principles	56
Appendix 2 – Communications Policy Statement	71
Appendix 3 – Investment Commentary	75
Independent Auditors Report	77

MANAGEMENT COMMENTARY

Introduction

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

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

Strategy and Business Model

As explained in the Funding Strategy Statement that can be accessed at: www.fifepensionfund.org, the fund has a long term strategy of investing member contributions so as to have sufficient investments to meet future pension liabilities as they fall due. Fund health is monitored every three years by means of review by an independent actuary (see Triennial Review, page 25).

Principal Risks and Uncertainty

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

Overview of Fund Business

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

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

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

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

Review of the Year

Key Facts and Figures

2021-22 Key Highlights	<ul style="list-style-type: none">• £3,531m net assets an increase of £228m on 2020-21• Performance return of 6.3% for 2021-22 and 10.1% for the rolling 3 year period• Fund continues to exceed its strategic investment return objective over the rolling 3-year period• 37,991 members an increase of 1,502• Funding level 97% at Valuation 2020
-------------------------------	---

Table 1 Financial Highlights

Financial Highlights	2021-22 £m	2020-21 £m	Change £m
Value of Fund	3,531,319	3,303,160	(228,159)
Operational (Surplus)/Deficit	(228.159)	(767.572)	539.413
Employers Contributed	92.227	85.323	6.904
Employees Contributed	22.671	20.440	2.231
Pensions and Other Benefits Paid out	93.741	86.723	7.018
Transfer values paid in	(1.965)	(2.335)	0.370
Transfer values paid out	3.616	7.376	(3.760)

Table 2 Investment Highlights

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

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

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

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

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

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

Investment Management Arrangements

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

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

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

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

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

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

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

Table 3 Investment Strategy

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

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

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

Responsible Investment Activities

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

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

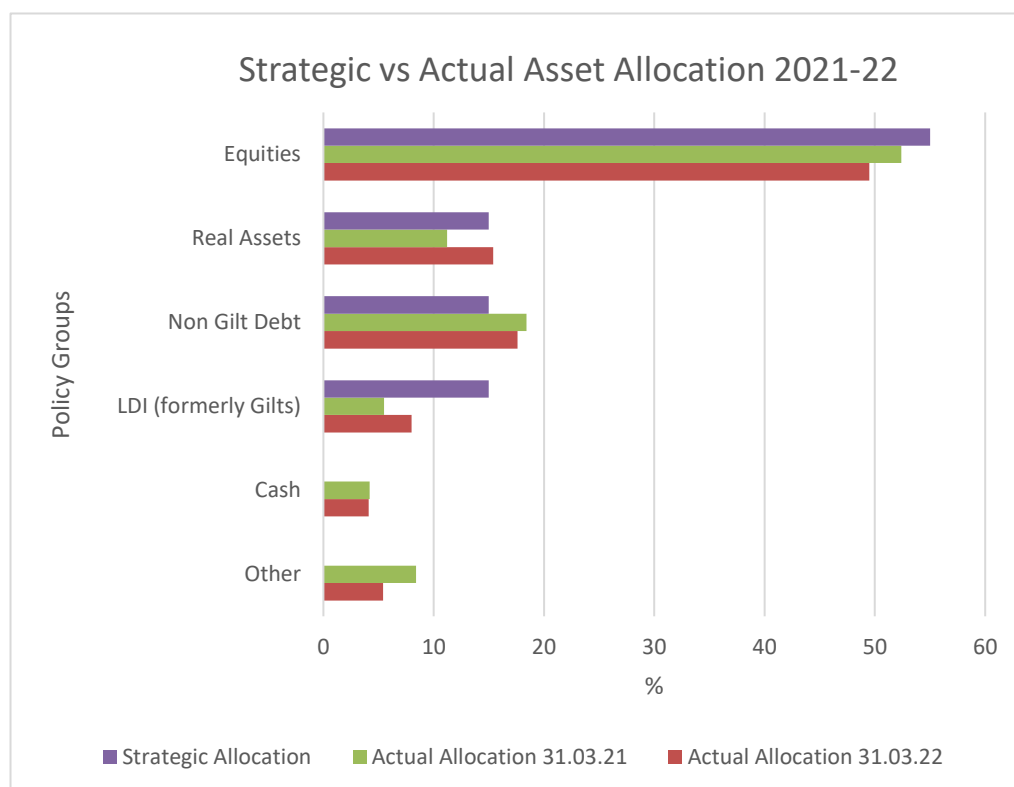
Since approval of the SRIP the fund has joined Climate Action 100 as well as continuing to participate in the Scottish Responsible Investment Group adopting a collective approach.

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

Implementation of Investment Strategy and Investment Performance

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

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



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

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

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

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

Table 4 Asset Allocation per Fund Manager

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

Source: Northern Trust

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

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

Table 5 Fund Performance

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

Source: Northern Trust

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

Investment Trends and Influences

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

Structure of Administration

The Pensions Team

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

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

The administration function covers a range of activities including:-

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

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

Service Delivery during the year

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

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

Training and Development

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

Training is delivered in-house, at LGPS Secretariat workshops and training events organised by our software supplier, Aquila Heywood. In-house training and Aquila Heywood training sessions were delivered during the pandemic using Microsoft Office Teams.

Training sessions were also provided for the Committee and Board including

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

Statutory Framework of the LGPS

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

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

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

Administration Performance

Pension Administration Strategy Statement

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

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

Performance Standards

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

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

Table 6 Performance Indicators 2021-22

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

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

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

Administration Review

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

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

Statutory Annual Benefit Statements

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

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

Use of Information Technology

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

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

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

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

Communications

Effective communication is vital to ensure both members and employers are aware of the benefits of the LGPS and are also kept up to date with scheme changes.

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

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

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

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

The principal communications with active and deferred members are the annual benefit statements and newsletters. These communications are available on-line through the Member Self Service facility although paper copies are available on request. The team has carried out extensive communication exercises promoting the benefits of Member Self Service and highlighting annual benefits could be viewed on-line.

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

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

Working with Scheme Employers

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

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

Collaborative Working

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

Key Legislative Changes

Amendments to the 2018 Regulations

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

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

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

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

McCloud Ruling – Preparatory Work

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

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

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

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

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

Other Key Regulatory and Legislative Issues

Public Service Pensions Indexation

The UK Government approved the rate of increase for all public sector pension schemes and state scheme benefits at 0.5% effective from 12 April 2021. The increase was set by reference to the annual change in the Consumer Price Index measured as at September 2020.

CARE Scheme Revaluation

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

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

National Fraud Initiative

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

Tell Us Once (TUO)

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

Internal Dispute Resolution Cases

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

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

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

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

Appeals Against Employer Decisions in 2021-22.

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

Appeal against Fund Decision

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

Fund Update

Membership details are shown below:-

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

The fund invested and administered pensions on behalf of 20 current and former employers during 2021-22. These include scheduled bodies, brought into the Fund by legislation, and admitted bodies which chose to join the fund. The detailed listing of employers is contained on page 55 of the Annual Report and Accounts for the Funds.

Future Years

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

Acknowledgements

We would like to thank elected members and officers of the Council for all of their work during 2021-22. The production of the accounts is very much a team effort and again the unaudited accounts were completed before the 30 June deadline, this is of particular significance this year given that all of the team were working remotely.

Steven Grimmond

Steven Grimmond
Chief Executive
13 December 2022



Eileen Rowand MBA CPFA
Executive Director Finance and Corporate Services
13 December 2022

Dave Dempsey

Councillor Dave Dempsey
Convener of Pensions Committee
13 December 2022

FIFE PENSION FUND ANNUAL GOVERNANCE STATEMENT

Roles and Responsibilities

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

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

Fife Council carries out its role as Administering Authority via

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

Scope of Responsibility

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

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

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

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

Governance Framework

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

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

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

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

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

[Strategy Statement](#). In addition to setting out the Fund's objectives, these documents also detail the controls in place to mitigate the risks facing the Fund.

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

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

Pensions Committee

Delegation

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

Terms of Reference

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

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

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

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

Frequency of Committee Meetings

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

The Fife Pension Board

The Pension Board has been established to assist Fife Council:

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

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

The Board's Constitution, which sets out the terms, structure and operational procedures of the Board, and information on each of the representatives, can be found at [www.fifepensionfund.org/Fife Pension Board Constitution](http://www.fifepensionfund.org/Fife_Pension_Board_Constitution)

Executive Director of Finance and Corporate Services

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

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

In addition, the responsibilities also include the following: -

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

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

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

Pension Governance Group (PGG)

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

External Advisers

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

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

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

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

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

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

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

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

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

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

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

Review of effectiveness

Internal Control

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

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

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

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

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

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

Update on Significant Governance issues Previously Reported

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

Internal Audit Opinion

During 2021-22 the following assurance reviews were undertaken

- Pensions Contributions
- Performance Management
- Pensions Investigation Report

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

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

Significant Governance Issues

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

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

Governance Compliance

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

Access to Information

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

Governance Arrangements – Areas of Improvement and Development

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

Completed Improvements

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

- Training is delivered through several means including external seminars and events, training provided at committee meetings by external advisers and Council Officers and briefing papers.
- During 2020 an assessment of training needs was carried out with members of the Committee and the Board asked to assess their current knowledge and understanding of all relevant topics. The results of the assessment are being used as a basis for arranging future training and development sessions.
- Throughout 2021-22 training sessions have been provided to the Committee and the Board covering:
 - Investment Strategy, Fiduciary Duty and Sustainability
 - Scottish LGPS Training -Governance and Investments
 - Scottish LGPS – Pensions Administration
 - Pension Fund Annual Reports, Accounts and Control Reports
 - Fossil Fuels & Responsible Investment
 - Cost Transparency and CEM benchmarking
- In May 2021, officers from the PGG provided induction training to new members of the Pension Board. The training covered governance arrangements, investments, LGPS regulations and administration of the scheme. Induction training was also carried out on 23 June 2022 following the Local Government Elections and appointment of new members to the Committee. Members were also invited to training session on Audit and Risk on 09 June 2022.
- The Fife Council List of Committee Powers has been updated to include the full Terms of Reference for the Pension Board. This will highlight the differences in roles and responsibilities between the Committee and the Board
- An Independent Professional Observer has been appointed to provide support to the Committee and Pensions Board.
- CEM benchmarking and Cost Transparency was undertaken and reported to Committee.

Future Developments and Improvements

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

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

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

Certification

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

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

Steven Grimmond

Steven Grimmond
Chief Executive
13 December 2022

Dave Dempsey

Councillor Dave Dempsey
Convenor of the Pensions Committee
13 December 2022

Governance Compliance Statement

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

	Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle?	Reason for non-compliance
			Yes / No / Partial	(if applicable)
Representation				
2.1	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.	The Committee and Pension Board meet jointly.		
	These include:-			
	i) employing authorities (including non-scheme employers, e.g. admitted bodies);	Fife Council is represented. The Board has 4 employer representatives.	Yes	
	ii) scheme members (including deferred and pensioner scheme members);	The Board has 4 employee representatives appointed by the Trade Unions.	Yes	
	iii) where appropriate independent professional observers;	An Independent Professional Observer was appointed in 2021 and attends each Committee meeting and Pensions Board meeting.	Yes	
	and			
	iv) expert advisors (on an ad-hoc basis)	Expert Advisers attend routinely as required	Yes	
2.2	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All Committee members and Board representatives receive the same access to all papers and training and are given the opportunity to contribute, challenge and debate fully in the decision making process.	Yes	
Selection and Role of Lay Members				
3.1	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	All new members of the Committee are required to attend induction training, which also provides them with guidance from the Council's Democratic Services Division about their role and responsibilities.	Yes	
3.2	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	This is a standing item on every Committee agenda.	Yes	

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

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

Steven Grimmond

Steven Grimmond
Chief Executive
13 December 2022

Dave Dempsey

Councillor Dave Dempsey
Convener of Pensions Committee
13 December 2022

ACTUARIAL STATEMENT

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2021. In summary, the key funding principles are as follows:

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

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

Funding Position as at the last formal funding valuation

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

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

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

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

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

* Currently aged 45.

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

Experience over the period since 31 March 2020

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

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

Robert Bilton FFA

For and on behalf of Hymans Robertson LLP
25 May 2022

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

REMUNERATION REPORT

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

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

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

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

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

The Administering Authority's Responsibilities

The Authority is required: -

- to make arrangements for the proper administration of the financial affairs of the Fife Pension Fund and to secure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Executive Director Finance and Corporate Services;
- to manage the affairs of the Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets;
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003) as amended by the Coronavirus (Scotland) Act 2020 ; and
- to consider the unaudited accounts no later than 31 August and to approve the audited accounts for signing by 13 December 2022.

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

Signed on behalf of Fife Council



Councillor Dave Dempsey
Convener of Pensions Committee

13 December 2022

Responsibilities of Executive Director Finance and Corporate Services

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

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

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

The Executive Director Finance and Corporate Services has also: -

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

I certify that the financial statements give a true and fair view of the financial position of the Fife Pension Fund at the reporting date and the transactions of the Pension Fund for the year ended 31 March 2022.



Eileen Rowand
Executive Director Finance and Corporate Services

13 December 2022

Fife Pension Fund Accounts

Fund Account

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

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

Fife Pension Fund Accounts

Net Asset Statement

The Net Asset Statement sets out the value, as at the statement date, of all assets and current liabilities of the Fund. The net assets of the Fund (assets less current liabilities) represents the funds available to provide for pension benefits as at 31 March 2022.

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

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

The unaudited financial statements were issued on 30 June 2022 and the audited accounts were authorised for issue on the 13th December 2022.



Eileen Rowand
Executive Director Finance and Corporate Services

13 December 2022

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

1 Description of Fund

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

General

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

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

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

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

1 Description of Fund (continued)

Changes in Membership

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

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

- Poppyview exited the fund on 25th July 2021

Funding

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

Scheme Benefits

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

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

The following table gives a summary of scheme benefits

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

2 Basis of Preparation

The statement of the accounts summarises the fund's transactions for the 2021-22 financial year and its position at the year end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3 Statement of Accounting Policies

a) General

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22, (the Code) which incorporates the International Financial Reporting Standards, in particular International Accounting Standard (IAS) 26 Retirement Benefit Plans, the accounting standard applicable for Pension Funds. The Code also adopts parts of the Financial Reports of Pension Schemes - Statement of Recommended Practice 2018, such as the format of the accounting statements.

b) Accruals

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

c) Valuation of Investments

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

d) Foreign Currency Transactions

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

e) Contributions and Benefits

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

f) Transfer Values

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

g) Investment Income

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

h) Administrative and Investment Management Expenses

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

i) Cash and Cash Equivalents

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

j) VAT

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

k) Taxation

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

l) Financial Assets

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

3 Statement of Accounting Policies (continued)

m) Financial Liabilities

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

n) Actuarial Present Value of Promised Retirement Benefits

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

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

o) Additional Voluntary Contributions (AVC)

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

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

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

p) Derivatives

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

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

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

q) Fair value measurement

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

r) Prior Year Adjustments

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

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

4 Critical Judgements in Applying Accounting Policies

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 has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

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

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

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

6 Contributions Receivable

By Category

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

By authority

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

7 Benefits Payable

By Category

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

By authority

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

8 Payments to and on Account of Leavers

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

9 Management Expenses

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

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

9a Investment Management Expenses

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

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

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

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

10 Investment Income

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

11a Reconciliation of Movements in Investments and Derivatives

Purchases and sales of derivatives are recognised as follows:

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

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

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

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

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

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

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

11b Analysis of Investments

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

11c Investments Analysed by Fund Manager

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

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

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

11d Stock Lending

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year-end, the value on loan was £91.856m (31 March 2021 £100.628m). This stock-lending programme continues to be recognised in the fund's financial statements. Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at a market value of £94.140m (31 March 2021 £104.328m) representing 102.5% of stock lent. Collateral consists of acceptable securities and government debt.

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

12 Analysis of Derivatives

Objectives and policies for holding derivatives

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

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

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

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

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

Open forward currency contracts

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

13 Fair Value - Basis of Valuation

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

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

13a Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

13a Fair Value Hierarchy (continued)

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

Values at 31 March 2022	Quoted Market Price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Investment assets at fair value	1,938.407	1,116.592	478.829	3,533.827
	1,938.407	1,116.592	478.829	3,533.827

Values at 31 March 2021	Quoted Market Price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Investment assets at fair value	1,909.423	1,085.017	311.988	3,306.428
	1,909.423	1,085.017	311.988	3,306.428

13b Reconciliation of Fair Value Measurements within Level 3

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

14 Classification of Financial Instruments

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

15 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Liquidity risk

Credit risk

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

Liquidity Risk

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

All financial Liabilities are due within one year.

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

Credit Risk

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

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

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

Market Risk

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

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

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

The subdivisions of market risk can be measured and the following tables provide an estimate of the potential volatility the fund is exposed to through the three components of market risk i.e. 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 2021 and 31 March 2020 and the impact of a 10% increase/decrease in the value of the pound on the fund's asset classes.

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

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

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

Interest Rate Risk

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

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

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

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

Market Risk - interest rate risk 31 March 2022	Duration (years)	Asset Values assumed	Asset Value on increase of 1%	Asset Value on decrease of 1%
		£m	£m	£m
Asset Type				
Fixed Interest Securities				
UK public sector (quoted)	6.03	139.693	131.268	148.118
UK corporate (quoted)	7.28	41.821	38.777	44.864
Overseas public sector (quoted)	11.52	2.040	1.805	2.275
Overseas corporate (quoted)	7.04	43.053	40.021	46.085
UK public sector index linked	10.76	143.224	127.807	158.641
Cash & cash equivalents				
Cash		180.992	182.802	179.182
Total		550.823	522.480	579.165

Market Risk - interest rate risk 31 March 2021	Duration (years)	Asset Values assumed	Asset Value on increase of 1%	Asset Value on decrease of 1%
		£m	£m	£m
Asset Type				
Fixed Interest Securities				
UK public sector (quoted)	13.57	93.113	80.473	105.752
UK corporate (quoted)	8.04	42.335	38.931	45.738
Overseas public sector (quoted)	11.90	2.024	1.783	2.264
Overseas corporate (quoted)	6.91	43.606	40.593	46.618
UK public sector index linked	22.18	91.570	71.261	111.880
Cash & cash equivalents				
Cash		174.697	176.443	172.950
Total		447.345	409.484	485.202

Other Price Risk

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

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

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

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

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

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

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

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

16 Actuarial Valuation

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

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

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

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

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

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

IAS 19 Assumptions used

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

Demographic assumptions

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

Sensitivity Analysis

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

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

17 Analysis of Debtors

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

18 Additional Voluntary Contributions (AVC)

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

19 Related Party Transactions

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

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

Governance

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

19a Key Management Personnel

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

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

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

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

20 Events after the Reporting Date

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

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

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

21 Contingent Assets and Liabilities

At 31 March 2022 there were no contingent assets or liabilities.

22 Impairment Losses

No investment assets were subject to impairment during the year.

23 Accounting Standards Issued, not yet Adopted

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

Accounting Standards not yet adopted are:-

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

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

MEMBERSHIP OF THE FUND

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

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

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

Scheduled Bodies

Fife Council

Fife College

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

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

Admitted Bodies

St Andrews Links Trust

Fife Housing Group

Citizens Advice & Rights Fife

Home-Start Levenmouth

Business Gateway Fife

Drug & Alcohol Project

Fife Intensive Rehabilitation & Substance Misuse Team (FIRST)

The Clued-Up Project

Forth & Oban

Fife Sport & Leisure Trust

Fife Coast & Countryside Trust

Fife Golf Trust

Fife Cultural Trust

Scotland's Rural College (SRUC)

Fife Resource Solutions

Sodexo

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

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

- 1.1 This Statement of Investment Principles (SIP) was agreed by the Superannuation and Pensions Committee (Committee) of Fife Council (FC) on 29 June 2021. FC is the administering authority for the Fife Pension Fund (the Fund).
- 1.2 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a SIP. The SIP must be reviewed from time to time and revised within six months of any material changes in the Policy.
- 1.3 In preparing this statement, the Committee has taken professional advice from the Joint Investment Strategy Panel (**JISP**), which includes external advisers and members of the internal investment team who are FCA authorised individuals.
- 1.4 The SIP describes the objectives, policies and principles adopted by the Committee of FC in undertaking the investment of fund monies. The SIP also discloses the extent to which the Fund comply with the six “Myners Principles” of investment practice (Appendix 2).

2. Governance

- 2.1 FC has delegated responsibility for the supervision of the Funds to the Committee, which comprises nine elected members from FC. The Committee is supported by a statutory Pensions Board consisting of four Trade Union and four employer representatives, which is responsible for ensuring that the Fund operates in accordance with the applicable laws and regulations. The Committee and Board will be supported by an independent professional observer from September 2021.
- 2.2 The Committee determines investment strategy based on proper advice from FC’s Executive Director of Finance & Corporate Services. The Executive Director of Finance and Corporate Services delegates this role to the Head of Finance taking advice from the JISP and external investment advisers.
- 2.3 Responsibility for implementing the strategy is delegated to the Executive Director of Finance and Corporate Services who delegates this role to the Head of Finance, taking advice from the JISP and external investment advisers. Day to day management of the Fund’s assets is currently undertaken by external investment managers whose activities are governed by Investment Management Agreements and the limits set out in Scheme regulations.
- 2.4 The SIP forms part of a governance framework that includes Statutory Regulations, the Pensions Committee, the Pension Board, the Joint Investment Strategy Panel, the Funds’ Advisers and the Funds’ Funding Strategy Statement.

3. High Level Investment Principles

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

Governance

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

Funding

- 3.6 **Principle 6: Given future uncertainties, the funding strategy should be prudent and should reduce risk to employers of another employer defaulting on its pension obligations.** The Funding Strategy Statement expresses the funding objective, which informs the invested strategy options. The ultimate objective is to ensure long-term solvency so that retirement benefits that employers promise to members under scheme rules can be paid when they fall due, so full funding should be achieved in a prudent manner to ensure that liquid assets are available at the required time. This is important for members, employers and taxpayers as the scheme is ultimately state-backed.

- 3.7 **Principle 7: Committee believes that the the Fund should consider requests for different investment strategies from employers with different objectives.** Employers have conflicting desires: on the one hand, they would like to minimise the fluctuations in contributions and on the other hand, they would like to minimise the overall amount of contributions. Employers may have different objectives, so they should be given the opportunity to request a bespoke investment strategy. The Fund should consider such requests, taking account of issues such as employer covenant and implementation costs.

Investments

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

- 3.14 **Principle 14: Committee believes that peer group comparative analysis needs to be treated with care.** No two pension funds are identical, so peer group analysis should be undertaken with care as different funds can hold different investment beliefs, objectives and return and risk appetites.

4. Responsible Investment

- 4.1 With liabilities extending decades into the future, it is in the Funds' interest to take its responsibilities as institutional asset owners seriously. To this end, the Funds' approach to responsible investment centers on effective stewardship of all assets, with a particular focus on good corporate governance to deliver sustainable investor value.
- 4.2 The Fund considers a wide range of issues and what financial impact it could have on the assets that it owns. The Funds' investment managers are charged with integrating ESG analysis into their decision-making. Investment managers are selected and appointed after due consideration of their approach to integrating ESG considerations into their investment process.
- 4.3 The Fund demonstrate their open and transparent approach to Responsible Investing by publishing a Statement of Responsible Investment Principles (SRIP). This document explains how the Fund practise responsible investment asset class by asset class, and how it is committed to limiting the impact of climate change. The SRIP is published as a standalone document. It represents the Fund's position on Responsible Investment, and it forms part of the Pensions Committee's regular review of Stewardship and Engagement activities.
- 4.4 Another key strand of the Funds' approach to responsible investment is voting and engagement. For listed equities, the Fund is committed to exercising the right to vote the shares that it owns. It is also committed to engaging with and influencing companies, governments and regulators where appropriate. The Fund does not follow a policy of exclusion or automatic divestment, as such a policy has the potential to transfer ownership rights to investors without responsible investment policies.
- 4.5 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. As long-term investors, the Fund recognises the importance of promoting responsible stewardship and long-term decision making. The Fund seeks to adhere to the FRC'S UK Stewardship Code, and encourage it's appointed asset managers to do so too. Details of adherence to the Code are provided in Appendix 2.

5. Fund's Objectives

- 5.1 The **primary objectives** of the Fund is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment.
- 5.2 The **funding objectives** for the Fund are documented in the Committee's Funding Strategy Statement, which is reviewed at least triennially. The funding objectives, together with the rates of return being targeted and levels of risk to be tolerated, are central to each Fund's investment strategy, and governs the allocation across various asset classes.
- 5.3 The **investment objectives** of the Fund are to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives as outlined in the Funding Strategy Statement. Investment returns are generated by a combination of income (from dividends, interest and rents) and gains or losses on capital.

- 5.4 In effect, the Funds' objectives are to generate sufficient long term returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.
- 5.5 Committee has set investment strategy with reference to the following **policy groups**, which are regarded as the key determinants of risk and return. The policy groups condense the vast array of investment choices into a manageable number of investment groups with broadly similar characteristics:
- **Equities** provide an equitable share in the assets and profits of companies. Income is provided through discretionary share dividends. Equities are listed in the UK or overseas, or are unlisted (private equity). Equities have historically produced returns above inflation.
 - **Gilts** are debt instruments issued by the UK Government. Typically, these provide interest payments on a regular basis over the life of the loan until capital is repaid at maturity. Some gilts provide interest payments and capital repayment value that is directly linked to price inflation (the Retail Price Index (RPI)). These are known as **Index Linked Gilts** and they provide the closest match to the Funds' liabilities, most of which are inflation-linked. Some other governments also issue this type of debt, but in different currencies tied to price inflation in their own countries.
 - **Non-Gilt Debt** instruments are issued by a range of borrowers to finance their activities in various sectors of the economy, which means that they carry varying degrees of credit risk. Income is provided through interest, which is typically paid to the lender on a regular basis until the loan capital is repaid, generally at par by the issuer at a pre-determined date. Bonds can pay a fixed, variable or inflation-linked rate of interest. Bonds are listed in the UK or overseas, or are unlisted (private debt).
 - **Other Real Assets** are typically investments in a share of income and capital appreciation of tangible assets, including **property** (land and/or buildings for commercial or residential use), **infrastructure** (assets deemed essential to the orderly functioning of daily life, such as renewable energy generation and transmission assets, water utilities, airports and toll roads) and **timberlands**. Income comes from dividends and rents.
 - **Cash** is also a form of investment used to provide instant or short-term liquidity, and can be held in both sterling and foreign currencies (including Treasury Bills, Money Market Funds and Secured Investments). Cash generates interest income, but typically a lower rate than bonds and other debt.
- 5.6 As the returns of the above investments are not completely correlated, the Funds expect to achieve diversification and better risk-adjusted returns by investing in assets from each policy group.

6. Fund strategy

- 6.1 The Committee's agreed investment strategy (presented in Appendix A) is expressed in terms of allocations to various policy groups (or asset classes). These reference portfolios are expected to generate the required return with a reasonable probability of success. The rate of return being targeted and the level of risk to be tolerated are central to the determination of the investment strategy (or asset mix) for Fund.
- 6.2 There may also be demand from individual employers for other investment strategies for their section of the Fund. The Fund will consider such requests, subject to practical implementation of such strategies and, if appropriate, a review of employer contribution rates. It is not practical for the Fund to offer individual employers full flexibility on asset allocation.
- 6.3 The Fund's investment strategy is measured against strategy-specific benchmarks by an independent performance measurement specialist, and these are reported to Committee at least annually with reference to asset market returns as well as liability valuations. The

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

7. Strategy Implementation

- 7.1 The Committee delegates implementation of strategy to the Executive Director of Finance and Corporate Services, who delegates the role to the Head of Finance, taking advice from the Joint Investment Strategy Panel (JISP). The Head of Finance operates within the parameters agreed by the Committee, investing the Funds' assets in the policy groups within the permitted ranges.
- 7.2 The Head of Finance, advised by the JISP, identifies the combination of investment managers and mandates within the policy groups to deliver the objectives of the Fund. The investment managers and mandates are listed in Appendix B.
- 7.3 To reduce the risk that the Fund does not deliver its objective, controls are set for each manager. These are detailed in formal Investment Management Agreements; and similarly, formal investment objectives and constraints are set for internal mandates where appropriate. The investment managers are responsible for the selection of individual holdings.
- 7.4 The Funds' investment managers and mandates are measured against mandate-specific benchmarks of risk and return by an independent performance measurement specialist. Performance and mandate implementation is monitored by the JISP on a quarterly basis.
- 7.5 The Fund will look to collaborate with other investors to benefit from increased scale and cost sharing arrangements.

8. Other Investment Considerations

Realisation of investments

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

Stock Lending

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

Underwriting

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

Derivatives

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

currency contracts allow the Funds to reduce risk from currency fluctuations and equity futures allow the Funds to reduce risk during major portfolio rebalances/transitions.

Safekeeping of Assets

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

9. Compliance

Regulations and Investment Limits

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

CIPFA Principles for Investment Decision Making

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

Review of SIP

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

Appendix A – Investment Strategy (29 June 2021)

FIFE PENSION FUND: INVESTMENT STRATEGY

Investment Objectives: to achieve a return and generate sufficient cash to pay pensions as they fall due.

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

Appendix B – Mandates and Managers

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

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

APPENDIX C – Statement of Compliance with UK Stewardship Code

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

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

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

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

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

- EOS at Federated Hermes has the expertise to undertake corporate engagement on an international basis, and they do this for us. Their aim is to bring about positive long-term change at companies through a focused and value-oriented approach. Engagements undertaken by EOS at Federated Hermes on our behalf are guided by [Hermes EOS Corporate Governance Principles](#).
- Through EOS at Federated Hermes, we also work to establish effective regulatory regimes in the various markets in which we invest to encourage governance structures that facilitate accountability of companies to their owners, give companies the certainty they need to plan for the future, and to level the playing field to ensure companies are not disadvantaged for prioritising long-term profitability.

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

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

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

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

Principle 3: Institutional investors should monitor their investee companies.

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

- We expect them to monitor companies, intervene where necessary, and report back regularly on activity.
- Activity will be reported on the Funds' website, including the number of company meetings at which the Fund has voted and how the Fund has voted.

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

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

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

- We expect the approach to engagement on our behalf to be value-orientated and focused on long term sustainable profitability. We expect EOS at Federated Hermes and External Fund Managers to disclose their guidelines for such activities in their own statements of adherence to the Code.
- Consistent with our fiduciary duty to beneficiaries and to encourage improved conduct in future, we consider participating in shareholder litigation where it appears likely that the Fund will recover losses (net of costs) sustained because of inappropriate actions by company directors.

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

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

- The appointment of EOS at Federated Hermes, whose engagement service pools asset ownership with the aim of protecting and enhancing shareholder value. EOS at Federated Hermes represents us and other like-minded asset owners globally using its expertise to enhance our effectiveness in communicating with companies, industry bodies, regulators and legislators.
- Our preference is for managers to vote on the Funds' behalf and for responsible stewardship to be integral to the investment decision-making process. We are comfortable with delegation of voting to External Fund Managers for the funds they manage.
- For all other mandates, EOS at Federated Hermes votes consistently across the portfolios it covers, and makes voting decisions based on a thorough analysis of publicly available information and always taking account of a company's individual circumstances. EOS at Federated Hermes informs companies where it has concerns and seeks a resolution prior to taking the decision to vote against management. In this way, it uses our votes as a lever for positive change at companies. Underpinning voting decisions are EOS at Federated Hermes Regional Corporate Governance policies, which can be found in the following link:

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

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

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

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

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

APPENDIX D – CIPFA Principles for Investment Decision Making and Disclosure

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

Principle 1 – Effective decision making

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

- The Fund's Trustee Training provision provides the knowledge to enable them to evaluate and challenge the advice they receive. Standards relating to the administration of the Committee's business are strictly upheld.
- The Pensions Committee focuses on setting the strategy for the Fund and monitoring performance. The Pension Board also attends Committee meetings and is responsible for assisting the Committee in securing compliance with relevant regulations and other legislation.
- The Committee delegates the day-to-day running of the Fund to the Executive Director of Finance and Corporate Services, who in turn delegates to the Head of Finance and Funds' officers. The Executive Director of Finance and Corporate Services is responsible for the provision of training for Committee to help them to make effective decisions to ensure that they are fully aware of their statutory and fiduciary responsibilities, and to regularly remind them of their stewardship role.
- The Joint Investment Strategy Panel advises the Head of Finance on the implementation of the agreed strategies, reviewing structure, funding monitoring, performance and risk and asset allocation. The Joint Investment Strategy Panel meets at least quarterly and is made up of experienced investment professionals, including independent advisers.
- The in-house team undertakes day-to-day monitoring of the Fund. The team includes personnel with suitable professional qualifications and experience to provide the necessary skills, knowledge, advice and resources to support the Joint Investment Strategy Panel and the Pensions Committee.
- Conflicts of interest are managed actively. At each Committee meeting, elected members of the Pensions Committee and Pensions Board are asked to highlight conflicts of interest. A Code of Conduct applies to members of the Committee and the Pension Board. The Fund ensures conflicts of interest are highlighted and managed appropriately.

Principle 2 – Clear Objectives

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

- The Statement of Investment Principles and the Funding Strategy Statement define the Fund's primary funding objectives.
- Asset-liability modelling is undertaken with the help of external advisers to aid the understanding of risks and the setting of investment strategy.
- Employers' attitude to risk is specifically considered in the setting of strategy, and employers can request a bespoke investment strategy.

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

Principle 3 – Risk and liabilities

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

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

Principle 4 – Performance assessment

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

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

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

Principle 5 – Responsible ownership

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

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

- The Fund's approach to responsible investment is described in the Statement of Investment Principles and on the Fund's website.
- The Fund's policy on responsible ownership is included in the statement on the Financial Reporting Council's Stewardship Code (see Appendix C of the Statement of Investment Principles).
- Details of the Fund's voting and engagements will be available on the Fund's website. The Fund's annual report and accounts includes a summary of the Fund's approach to responsible investment. The full report is available on the website and is sent to members on request.

Principle 6 – Transparency and reporting

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

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

FIFE PENSION FUND COMMUNICATION POLICY

(May 2020)

Introduction

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

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

A policy statement must set out:

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

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

Communications Objectives

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

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

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

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

Key Audiences

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

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

Communication Tools and Strategy

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

Active Scheme members – currently contributing to the Scheme

Member Self Service (MSS)

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

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

Once registered, a member can

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

By post

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

In person/phone

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

Email/Website

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

Pensioner Members – those receiving a pension from the Fund

By post

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

In person/phone

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

Email/Website

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

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

Member Self Service (MSS)

Member Self Service has been rolled out to deferred members.

Once registered, a deferred member can

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

By post

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

In person/phone

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

Email/Website

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

Scheme Employers

The Fund communicates with scheme employers in the following ways:

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

Prospective Members

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

Representatives of Members

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

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

The Pension Team assists Trade Union representatives with member queries.

Superannuation and Pensions Committee and the Fife Pension Board

The Committee and Board members receive directly all meeting papers. The sub-Committee comprises 9 elected members. Details of the meetings and minutes are available on the Council's website.

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

Development Priorities

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

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

Evaluation

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

If you want to get in touch with us about how we communicate, please contact us using the contact details below.

Contact Details

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

Opening Times: Monday to Friday 8.30 am to 5.00 pm

Telephone: 03451 55 55 55 Ext 440896

Email: pensions.section@fife.gov.uk

Website: www.fifepensionfund.org

INVESTMENT COMMENTARY

LOTHIAN PENSION FUND INVESTMENT (LPFI)

Investment markets

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

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

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

ADDITIONAL INFORMATION

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

Comments and Suggestions

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

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

Contact Details

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

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

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

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

Email: Banking.Investments@fife.gov.uk

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of Fife Pension Fund (the fund) for the year ended 31 March 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the financial transactions of the fund during the year ended 31 March 2022 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

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

Risks of material misstatement

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Reporting on other requirements

Other information

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

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

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary, Pension Fund Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

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

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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



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

13 December 2022

**Fife
Pension Fund**

Administered by Fife Council

