



# Fife Pension Fund Annual Governance Statement

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## 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](http://www.fifepensionfund.org/Statement_of_Investment_Principles) and [www.fifepensionfund.org/Funding Strategy Statement](http://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](http://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](http://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](http://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 (Appendix A) 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](http://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](http://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 in March 2021. This will become an annual report.

### **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.

<b>Development</b>	<b>Responsible Officer</b>	<b>Timescales</b>
A series of training events complimenting committee business will continue for Committee and Board members. This will be done in line with the training policy and will recognise the number of new committee and board members following the recent local elections.	Finance Operations Manager	Ongoing
Recognising that there is only partial compliance in relation to attendance at relevant training events, the training policy will be kept under review, particularly in relation to regulatory requirements in this area and the need for mandatory participation in training. This will include reviewing consequences resulting from under performance in this area.	Finance Operations Manager	September 2022
The PGG will consider prominence for the Committee of compliance with Code of Practice 14.	Head of Finance	Ongoing
Development of a Business Plan for the Fund	Head of Finance	September 2022
Review of Administration Strategy and the associated KPIs	Finance Operations Manager	March 2023
Review of all governance documentation	Finance Operations Manager	Ongoing
Administration Service Review in conjunction with Hymans Robertson	Pensions Team Leader	September 2023

## **Certification**

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

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

Steven Grimmond  
Chief Executive

Councillor Dave Dempsey  
Chair of the Pensions Committee