City Chambers
DUNDEE
DD1 3BY

14th March, 2024

Dear Colleague

PENSION SUB-COMMITTEE AND PENSION BOARD

I refer to the agenda previously issued in respect of the Pension Sub-Committee and Board scheduled for 18th March, 2024 and now enclose the undernoted item of business which will also fall to be considered.

Yours faithfully

GREGORY COLGAN

Chief Executive

AGENDA OF BUSINESS

3(a) APPOINTMENT OF CHAIRPERSON OF PENSION BOARD (AN9-2024)

In accordance with the Public Service Pensions Act 2013, the Sub-Committee are asked to seek nominations for the post of Chair of the Pension Board for the period of 12 months. The post of Chair of the Pension Board is subject to annual change by the regulations.

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21 City Chambers
DUNDEE
DD1 3BY

8th March, 2024

TO: ALL MEMBERS OF THE PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD

Dear Colleague,

You are requested to attend a JOINT MEETING of the **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD** to be held remotely on Monday, 18th March, 2024 at 12 noon.

Members of the Press or Public wishing to join the meeting should contact Committee Services by telephone (01382) 434205 or by email at committee.services@dundeecity.gov.uk by no later than 12 noon on Friday, 15th March, 2024.

Yours faithfully

GREGORY COLGAN

Chief Executive

AGENDA OF BUSINESS

1 DECLARATION OF INTEREST

Members are reminded that, in terms of The Councillors Code, it is their responsibility to make decisions about whether to declare an interest in any item on this agenda and whether to take part in any discussions or voting.

This will include all interests, whether or not entered on your Register of Interests, which would reasonably be regarded as so significant that they are likely to prejudice your discussion or decision-making.

2 APOLOGIES

3 MINUTE OF PREVIOUS MEETING - Page 1

(Minute of the meeting of the Pension Investment Sub-Committee of 11th December, 2023 (copy attached).

4 TAYSIDE PENSION FUND RISK REGISTER - Page 5

(Report No 89-2024 by the Executive Director of Corporate Services (copy attached).

5 PROCUREMENT POLICY - Page 21

(Report No 71-2024 by the Executive Director of Corporate Services (copy attached).

6 PENSION ADMINISTRATION PERFORMANCE – QUARTERLY UPDATE TO 31ST DECEMBER, 2023 - Page 27

(Report No 73-2024 by the Executive Director of Corporate Services (copy attached).

7 TAYSIDE PENSION FUND – AUDIT SCOTLAND ANNUAL AUDIT PLAN 2023/24 - Page 41

(Report No 74-2024 by the Executive Director of Corporate Services (copy attached).

8 INTERNAL AUDIT RISK ASSESSMENT & AUDIT PLAN 2024/25 - Page 59

(Report No 75-2024 by the Executive Director of Corporate Services (copy attached).

9 TAYSIDE PENSION FUND INTERNAL AUDIT REPORTS – PENSIONS ADMINISTRATION & LIQUIDITY - Page 87

(Report No 76-2024 by the Executive Director of Corporate Services (copy attached).

10 TREASURY POLICY STATEMENT 2024/25 - Page 139

(Report No 77-2024 by the Executive Director of Corporate Services (copy attached).

11 TREASURY MANAGEMENT STRATEGY 2024/2025 - Page 147

(Report No 78-2024 by the Executive Director of Corporate Services (copy attached).

12 PENSION ADMINISTRATION STRATEGY - Page 155

(Report No 79-2024 by the Executive Director of Corporate Services (copy attached).

13 TAYSIDE PENSION FUND COMMUNICATIONS POLICY - Page 175

(Report No 80-2024 by the Executive Director of Corporate Services (copy attached).

14 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE POLICY - Page 183

(Report No 81-2024 by the Executive Director of Corporate Services (copy attached).

15 TAYSIDE PENSION FUNDS ACTUARIAL VALUATION AT 31ST MARCH, 2023 - Page 193

(Report No 82-2024 by the Executive Director of Corporate Services which considers report by Barnett Waddingham (copy attached).

16 FUNDING STRATEGY STATEMENT 2024 - Page 235

(Report No 83-2024 by the Executive Director of Corporate Services (copy attached).

17 STATEMENT OF INVESTMENT PRINCIPLES REVIEW - Page 253

(Report No 84-2024 by the Executive Director of Corporate Services (copy attached).

18 TAYSIDE PENSION FUND BUSINESS PLAN 2024/25 - Page 269

(Report No 85-2024 by the Executive Director of Corporate Services (copy attached).

The Sub-Committee may resolve under Section 50(A)(4) of the Local Government (Scotland) Act 1973 that the press and public be excluded from the meeting in order that the undernoted items of business may be considered in private on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 4, 6 and 11 of Part 1 of Schedule 7(A) of the Act.

19 TAYSIDE PENSION FUNDS

20 ALTERNATIVE INVESTMENT MANDATE PROCUREMENT EXERCISE UPDATE

21 ANNUAL PERFORMANCE REVIEW TO 31ST DECEMBER 2023

22 PRESENTATION

ITEM No …3………..

At a JOINT MEETING of the **PENSION SUB-COMMITTEE** of the **CITY GOVERNANCE COMMITTEE AND THE PENSION BOARD** held remotely on 11th December, 2023.

Present:-

PENSION SUB-COMMITTEE

BAILIE Kevin KEENAN

COUNCILLORS

Ken LYNN	Dorothy McHUGH	Michael CRICHTON

PENSION BOARD

Bill DUFF	Stewart DONALDSON	Arthur NICOLL
George RAMSAY		Kenny DICK

Bailie Willie SAWERS, in the Chair.

I DECLARATION OF INTEREST

No declarations of interest were made.

II APOLOGIES

The Sub-Committee and Board noted apologies had been received from Councillor Rome.

III MINUTE OF PREVIOUS MEETING

The minute of meeting of 18th September, 2023 was submitted and approved.

IV TAYSIDE PENSION FUNDS RISK REGISTER

There was submitted Report No 369-2023 by the Executive Director of Corporate Services seeking approval for the Quarterly Risk Register for Tayside Pension Fund which was updated on 20th November, 2023, noting no changes to risk profile since the previous report.

The Sub-Committee and Board:-

(i) approved the Quarterly Risk Register for Tayside Pension Fund, noting the revisions made.

V PENSION ADMINISTRATION PERFORMANCE – QUARTERLY UPDATE TO 30TH SEPTEMBER, 2023

There was submitted Report No 370-2023 by the Executive Director of Corporate Services providing information on the recent quarter's operational performance in relation to Pension Administration.

The Sub-Committee and Board:-

(i) noted the content of the report.

VI TAYSIDE PENSION FUND ACCOUNTS 2022/2023

(a) TAYSIDE PENSION FUND 2022/2023 – ACCOUNTS AND AUDIT

There was submitted Report No 371-2023 by the Executive Director of Corporate Services reporting on the outcome of the external audit of Tayside Pension Fund for the year to 31st March, 2023. A copy of the External Auditor's Annual Audit Report (Report No 373-2023) and the Draft Audited

Annual Report and Accounts 2022/2023 for the Tayside Pension Fund (Report No 372-2023) were also submitted for consideration.

The Sub-Committee and Board:-

(i) noted the contents of External Auditor's Annual Audit Report, in particular that Audit Scotland anticipated issuing an unqualified audit opinion.

(b) DRAFT AUDITED ANNUAL REPORT AND ACCOUNTS 2022/2023

There was submitted Report No 372-2023 by the Executive Director of Corporate Services providing details of the Draft Audited Annual Report and Accounts 2022/2023.

The Sub-Committee and Board:-

(i) noted the content of the report.

(c) EXTERNAL AUDITOR'S ANNUAL REPORT

There was submitted Report No 373-2023 by Audit Scotland providing details of the External Auditor's Annual Report.

The Sub-Committee and Board:-

(i) noted the content of the report.

VII TREASURY MANAGEMENT ACTIVITY 2022/2023 (MID YEAR REVIEW)

There was submitted Report No 374-2023 by the Executive Director of Corporate Services reviewing the Treasury Management activities for the period 1st April, 2023 to 30th September, 2023.

The Sub-Committee and Board:-

(i) noted the content of the report.

VIII PROPOSED TIMETABLE OF MEETINGS FOR 2024

There was submitted Report No 375-2023 by the Executive Director of Corporate Services proposing a suggested programme of meetings of the Pension Sub-Committee and Pension Board in 2024.

The Sub-Committee and Board:-

(i) examined the dates set out in the timetable in Appendix 1 and agreed the proposed programme of meetings.

The Sub-Committee and Board resolved under Section 50(A)(4) of the Local Government (Scotland) Act 1973 that the press and public be excluded from the meeting for the undernoted items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraphs 4, 6 and 11 of Part I of Schedule 7A of the Act.

IX TAYSIDE PENSION FUND

(a) SUMMARIES OF INVESTMENTS AND TRANSACTIONS 1ST JULY TO 30TH SEPTEMBER, 2023

There was submitted Report No 363-2023 by the Executive Director of Corporate Services reviewing the investment activities of Tayside Pension Fund's five Fund Managers for the quarter 1st July, 2023 to 30th September, 2023 and summarising the transactions of each Fund Manager and showing the market values of the Pension Fund.

The Sub-Committee and Board:-

(i) noted the information contained therein with regard to the performance of the Tayside Main Fund and their Fund Managers.

(b) TAYSIDE PENSION FUND PERFORMANCE SUMMARY

There was submitted Report No 376-2023 by the Executive Director of Corporate Services reviewing the investment performance of the Fund's investment managers for the quarter to 30th September, 2023. The report compared investment performance of the Fund with the Fund's specific benchmarks which consisted of various stock and security market indices.

The Sub-Committee and Board:-

(i) noted the information contained therein with regard to the performance of the Tayside Main Fund and their Fund Managers.

(c) OVERVIEW OF OUTCOMES OF ACTUARIAL VALUATION AT 31ST MARCH, 2023

There was submitted Report No 377-2023 by the Executive Director of Corporate Services updating the Sub-Committee and Board on the preliminary results of the actuarial valuation of Tayside Pension Fund at 31st March, 2023.

The Sub-Committee and Board:-

(i) noted the content and recommendations of the actuarial presentation.

X SOCIALLY RESPONSIBLE INVESTMENT - SIX MONTHLY REPORT

There was submitted Report No 378-2023 by the Executive Director of Corporate Services reviewing the progress by the Fund Managers regarding positive engagement in line with the Policy on Environmental, Social and Corporate Governance approved by the Sub-Committee and Board (Article XV of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 20th March 2023, Report No 97-2023 refers).

The Sub-Committee and Board:-

(i) noted the information contained within the report with regards to the activities of the Fund Managers during the six-month period ended 30th September, 2023.

XI ANNUAL ASSESSMENT OF INVESTMENT ADVISORY SERVICES 2023

There was submitted Report No 379-2023 by the Executive Director of Corporate Services providing information on the annual assessment of investment advisory service performance undertaken by Fund Officers as required by the Competition and Markets Authority.

The Sub-Committee and Board:-

(i) noted the content of the report.

XII INVESTMENT MANDATE EVALUATIONS

There was submitted Report No 380-2023 by the Executive Director of Corporate Services detailing the outcome of the procurement exercises undertaken to enable successful selection and appointment of the following investment mandates:-

- Diversified Markets Manager
- Multi Asset Credit Manager
- Buy and Maintain Bond Manager

The Sub-Committee and Board:-

(i) noted the content of the report; and

(ii) approved the appointment of the preferred investment managers, and for the subsequent transition of assets.

XIII PRESENTATION

Jeremy Podger and David Barber from Fidelity gave a short presentation to the Sub-Committee and Board.

After Mr Podger and Mr Barber had given their presentation and answered questions from members, the Chair thanked the presenters on behalf of members of the Sub-Committee and Board.

Willie SAWERS, Chair.

ITEM No …4………..

`REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: **RISK REGISTER**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **89-2024**

1 PURPOSE OF REPORT

The Sub-Committee is asked to approve the Quarterly Risk Register for Tayside Pension Fund which was updated on 13th February 2024, noting the following changes to risk profile since the previous report.

2 RECOMMENDATIONS

The Sub-Committee is asked to approve the Quarterly Risk Register for Tayside Pension Fund, noting the following revision made:

Risk 17 - Lack of expertise on Pension Committee, Pension Board or amongst officers

This is a governance risk that has increased in likelihood as a result of the upcoming retirals. Members are asked to note that key policies and governance arrangements are in place to minimise the potential impact and likelihood of any negative consequences, and also that remaining staff have sufficient knowledge and experience in the short-term. There is also ready access to external specialist advice and peer support from other LGPS if required.

3 FINANCIAL IMPLICATIONS

There are no financial implications other than those highlighted in the risk register.

4 INTRODUCTION

The Local Government Pension Scheme Management and Investment of Funds (Scotland) Regulations 2010 requires funds to state the extent to which they comply with guidance given by the Scottish Ministers.

The Scottish Ministers guidance refers to the six revised principles on investment decision making contained within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).
Principle 3: Risk and Liabilities (paragraph 98) states that "The annual report of a pension fund should include an overall risk assessment in relation to each of the funds activities and factors expected to have an impact on the financial and reputational health of each fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of residual risk".

The initial Tayside Superannuation Funds Risk Register (Article III of the Minute of Meeting of the Superannuation Sub-Committee of the Policy and Resources Committee of 21 February 2011, Report No 114-2011 refers) requires conformity with the Statements of Investment Principles for the Tayside Pension Fund.

In 2021, an internal audit review of Risk Management and Regulatory Compliance was undertaken and the findings were reported to the Pension Sub-committee & Board (Article IX of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee & Pension Board of 21 March 2022, Report No 87-2022 refers). The review suggested the following changes be made to the risk register:

- Update of current risk descriptions to use cause, event and consequence format

- Addition of risks not specified within current risk register
- Implementation of a revised risk scoring matrix specific to Tayside Pension Fund

All risks and controls have been reviewed and rescored accordingly.

5 **POLICY IMPLICATIONS**

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 **CONSULTATIONS**

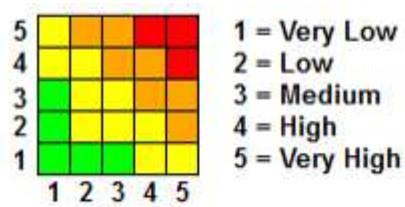
The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 **BACKGROUND PAPERS**

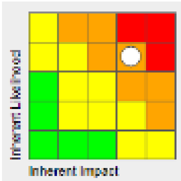
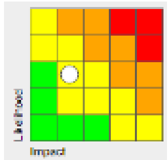
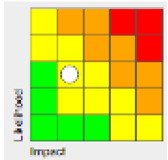
None

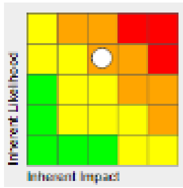
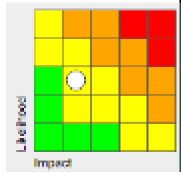
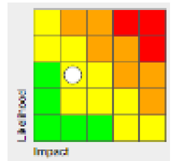
ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

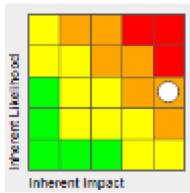
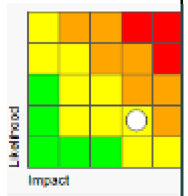
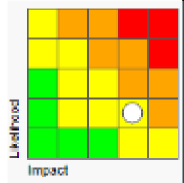
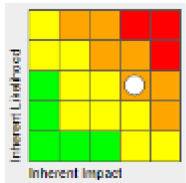
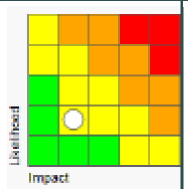
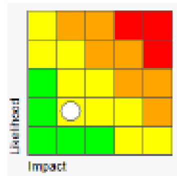
Pentana Risk Matrix

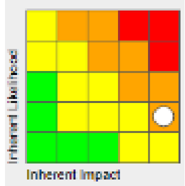
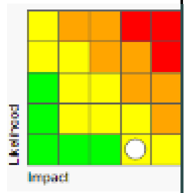
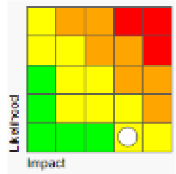
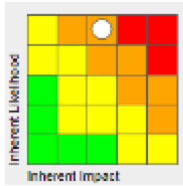
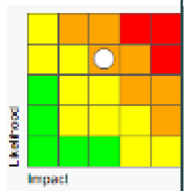
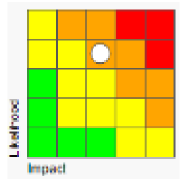


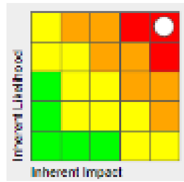
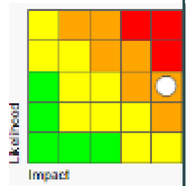
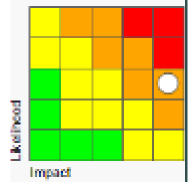
Quarterly Risk Report
Report Type: Tayside Pensions Fund Risks Report
Report Author: Executive Director of Corporate Services
Generated on: 13 February 2024

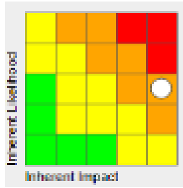
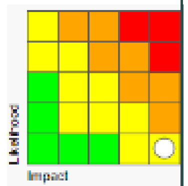
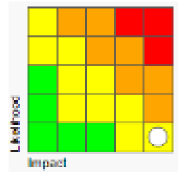
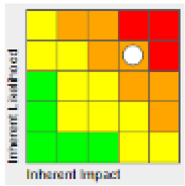
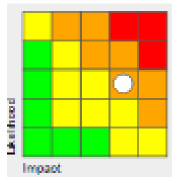
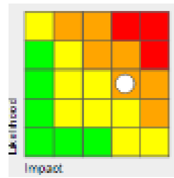
Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
Pension Administration (Risk appetite - minimalist) 1.Failure to process pension payments and lump sums on time	• Non-availability of pension / payroll systems • Resource unavailable • New staff undertaking duties • Increased workload • Failure to gain relevant information from employers to enable processing	• Processing delays • Processing errors • Retiring members will be paid late • Reputational risk for the Fund • Breach of statutory requirements	• Financial implications for members. • Loss of stakeholder confidence. • Financial cost to the fund if interest has to be paid to members. • Regulatory action		• Regular update & maintenance of Altair & Resourcelink • Standardised processes & independent review of calculations • Sufficient staff cover arrangements • Task prioritisation • Contingent measures to prevent financial detriment		 No change

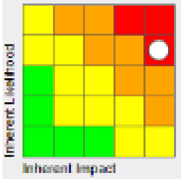
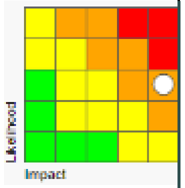
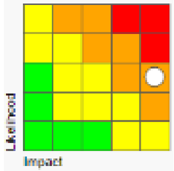
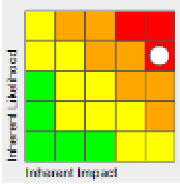
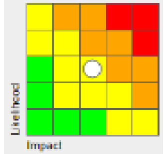
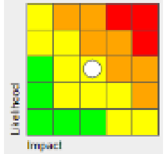
Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
Funding - Employer related (Risk appetite - cautious) 2.Failure to collect and account for contributions from employers and employees on time	• Non-availability of financial system (Fund and employer) • Resource unavailable • New staff undertaking duties • Failure to communicate with employers effectively • Failure of employer to provide required information • Failure of employer to make financial settlement	• Adverse audit opinion • Breach of statutory requirements • Knock on effect on reporting requirements • Financial impact as insufficient cashflow to meet monthly pension payments without unplanned sale of assets	• Requirement for report of regulatory breach & subsequent action if required • Potential delays to employers' FRS17 year-end accounting reports • Loss of stakeholder confidence • Recovery / legal action required • Opportunity cost of lost investment income		• Robust maintenance and update of Resourcelink and Authority Financials systems • Sufficient staff cover arrangements • Staff training and checking of work. • Ongoing employer communication to ensure they understand responsibilities to pay by the 19th of the month. • Contribution tracker system • Introduction of employer contribution payment flexibility within financial year (subject to agreement)		 No change

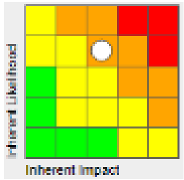
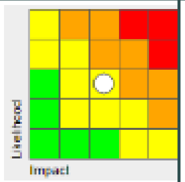
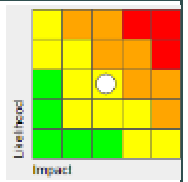
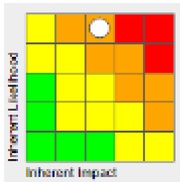
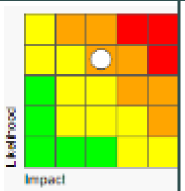
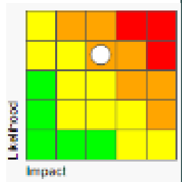
Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
Funding - Liquidity (Risk appetite - averse) 3.Insufficient funds to meet liabilities as they fall due	• Contribution levels are inadequate • Contributions • Investment strategy fails to deliver adequate returns • Significant changes in member profile (i.e. rapid maturing of fund liabilities) • Significant increases in actuarial assumptions (i.e. longevity.	• Rise in employer contribution rate required • Unplanned asset sales required to meet • Revision of Funding and Investment strategies required	• Inability to meet overall strategic objectives • Immediate cash injections would be required from employers by means of contributions • Reduced funding levels • Lost investment income from unplanned asset sales • Transaction costs associated with changing strategies		• Funding Strategy Statement • Investment Strategy • Ongoing advice from investment consultants, etc. • Suitable policies & strategies in place to prevent • Regular monitoring of asset / liability valuations • Triennial actuarial valuations		 No Change
Operational (Risk appetite - minimalist) 4.Inability to maintain service due to loss of main office, computer system or staff	• Fire, bomb, flood, etc. • Staff unable to access office (i.e. public health restrictions) • IT system / network outage	• Temporary loss of service provision. • Delayed payments & processing • Retiring staff will be paid late • Reputational risk for the Fund • Breach of statutory requirements	• Financial implications for members. • Loss of stakeholder confidence. • Financial cost to the fund if interest has to be paid to members. • Regulatory action		• DCC business continuity plan (top priority) • Contractual agreement with system provider • Daily back up and contingent procedures • Back-up server located in different building • 100% staff remote working capabilities		 No Change

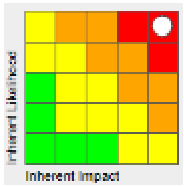
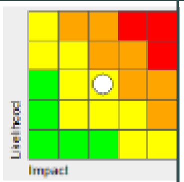
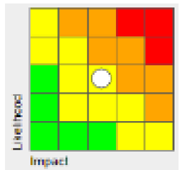
Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
Operational (Risk appetite - minimalist) 5.Loss of funds through fraud or misappropriation	• Fraud or misappropriation of funds by staff/employer/ 3rd party service provider	• Financial loss to the fund • Reputational risk for the Fund • Adverse audit opinion • Breach of statutory requirements • Enforcement action	• Requirement for report to regulator & subsequent action if required • Criminal investigation • Loss of stakeholder confidence • Recovery / legal action required		• Internal and external audit regularly test that appropriate controls are in place and working effectively. • Regulatory control reports from investment managers, custodian, etc are also reviewed by audit. • Due diligence carried out when a new manager is appointed. • Reliance also placed on Financial Conduct Authority registration & requirements.		 No Change
Funding - Employer related (Risk appetite - cautious) 6.Employers unable to participate in scheme	• Employer liabilities increase disproportionately as a result of changed member profiling	• Employers unable to maintain contributions • Employers exit from fund • Employer cannot meet liabilities on exit	• Inability to meet overall strategic objectives • Financial loss to fund, triggering asset sales to meet pension payments		• Full Actuarial Valuation undertaken every 3 years (employers advised of liability)		 No Change

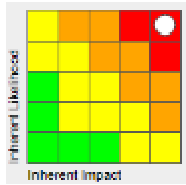
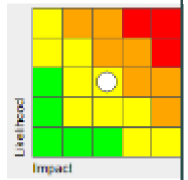
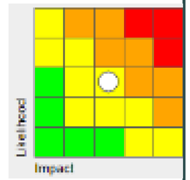
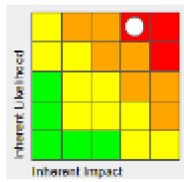
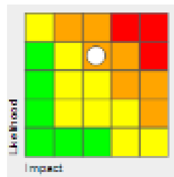
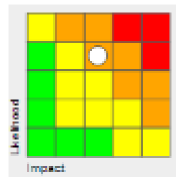
Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
	• Employer liabilities increase disproportionately as a result of external factors (i.e. change in bond yields) • Reduced asset values in relation to liabilities due to external factors		• Fund profile changed as a result of employer exit • Insolvency of employer • Recovery of liabilities in liquidation		• Funding Strategy enables exit at minimum risk. • Independent covenant and financial settlement assessment on affordability • Employer contribution payment flexibility within financial year (subject to agreement) • Employer / fund communications and relationship management		
Funding - Investment (Risk appetite - open) 7.Significant rises in employer contributions due to poor/negative investment returns	• Poor economic conditions • Inappropriate investment strategy • Poor selection / performance of investment managers	• Financial impact as a result of poor/negative investment returns • Revision of investment strategy required • Dismissal of investment managers	• Inability to meet overall strategic objectives • Reduced funding level • Increased contributions required • Transaction costs on change of strategy or investment manager		• Performance & funding levels monitored on an ongoing quarterly basis • Investment & Funding strategies reviewed and assessed independently • Diversified range of investment managers over		 No change

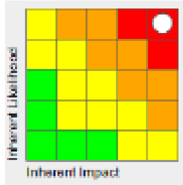
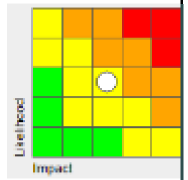
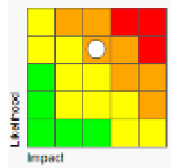
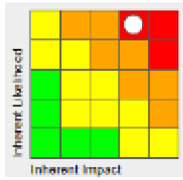
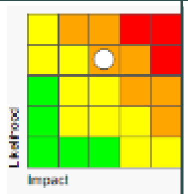
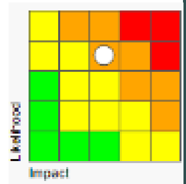
Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
					different asset classes • 10% asset shock reserve		
Operational (Risk appetite - minimalist) 8.Failure of global custodian	• Financial collapse of global custodian or failure to safeguard assets or records	• Financial loss to the fund. • Loss of information required for statutory and accounting purpose	• Inability to meet overall strategic objectives • Severe service disruption as a result of recovery action • Statutory breaches		• Legal agreement with custodian. • Credit rating monitored on an ongoing basis. • Regulated by Financial Conduct Authority. • Assets not on custodian balance sheet.		 No Change
Funding - Investment (Risk appetite - open) 9.Failure of Investment Manager	• Substantial decline of global financial market • Economic factors impacting on asset class • Under performance of investment manager	• Financial loss to the fund • Reduced asset returns • Investment outflows from investment manager portfolio • Termination of mandate with investment manager	• Inability to meet overall strategic objectives • Reduced funding level • Increased employer contribution levels • Required appointment of alternative investment manager • Transaction costs associated with change		• Performance monitored on an ongoing quarterly basis. • Diversified range of asset classes. • Advice provided by Investment Consultant.		 No Change

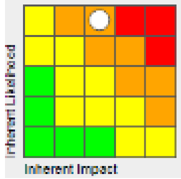
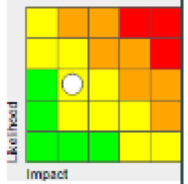
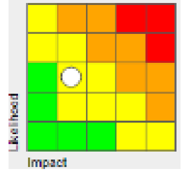
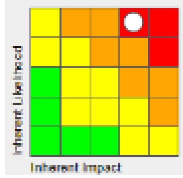
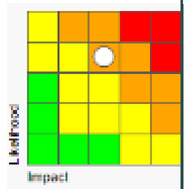
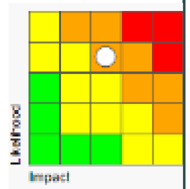
Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
Funding - Investment (Risk appetite - open) 10.Equity Risk	• Market sector falls substantially as a result of global economic factors	• Financial loss to the fund	• Inability to meet overall strategic objectives • Reduced funding level • Increased employer contribution levels		• Performance monitored on an ongoing quarterly basis. • Investment strategy with diversified range of asset classes and long-term investment objectives. • Advice provided by Investment Consultant. • Fund officers remain in close communications with investment managers • 10% volatility reserve		 No Change
Governance (Risk appetite - minimalist) 11.Failure to comply with changes to LGPS regulations and other new regulations / legislation Specifically: • GMP • McCloud • Pensions Dashboard	• Significant changes to scheme & regulations which staff are unfamiliar with • Failure in readiness for changes • Lack of technical expertise / training	• Incorrect calculations • Delays in processing • Statutory breaches • Reputational risk	• Financial implications for members. • Loss of stakeholder confidence. • Financial cost to the fund if interest has to be paid to members. • Regulatory action		• Verification process in place within Pensions section • Staff training • Audited key processes reviewed prior to significant changes • Recruitment exercises as required		 No change

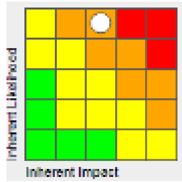
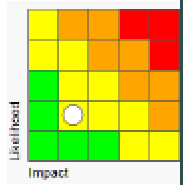
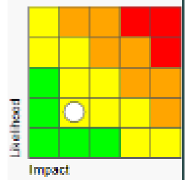
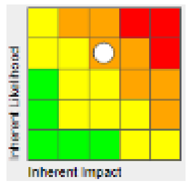
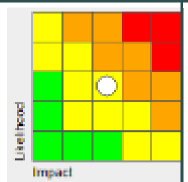
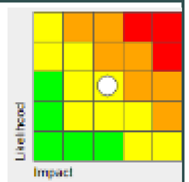
Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
	• Inadequate procedures / process • Lack of resources • Error in interpreting requirements • IT systems not updated to reflect changed requirements				• Robust system maintenance & upgrade • Specialist advice used as required to ensure correct interpretation • Performance monitoring • Project management for implementation of key changes / exercises		
Governance (Risk appetite - minimalist) 12.Failure to comply with governance best practice Specifically: • TPR New Draft Code of Practice • TPR Good Governance project outcomes	• Failure to implement requirements • Inadequate processes / procedures • Inadequate training as to changed requirements	• Breach of statutory requirements • Sub-standard service to members and employers • Reputational risk for the Fund	• Regulatory action • Loss of stakeholder confidence		• Staff training • Audited key processes reviewed prior to significant changes • Specialist review and advice		 No Change
Pension Administration (Risk appetite - minimalist) 13.Failure to provide quality service to members	• Inadequate administration & communication policies • Lack of resources	• Reputational risk for the Fund • Processing delays & errors • Late payments • Sub-optimal decision making	• Financial implications to members • Loss of stakeholder confidence		• Key policies reviewed and updated annually or sooner if required • Recruitment exercises as required in keeping with		 No Change

Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
	• Lack of staff skills / knowledge • Lack of training • Ineffective processes & procedures • Poor communication documentation • Unanticipated workloads	• Reputational risk for the Fund			statutory requirements • Ongoing staff training and support • Key processes audited and reviewed annually • Communication / documentation reviewed regularly and updated • Weekly work allocation to prioritise and avoid bottlenecks		
Operational (Risk appetite - minimalist) 14.Failure to hold personal data securely	• Insufficient system abilities re security of data • Sub-standard retention processes & procedures • Inadequate data retention policy, backup and recovery procedures • Change of retention requirements	• Data lost or compromised • Incorrect member records • Processing delays & errors • Retiring staff will be paid late • Reputational risk for the Fund • Breach of statutory requirements	• Financial impact to members • Loss of stakeholder confidence. • Financial cost to the fund if interest has to be paid to members. • Regulatory action		• Data security system settings & controls • Data retention policy & processes / back up & recovery procedures		 No Change

Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
Operational (Risk appetite - minimalist) 15.Cybercrime	• Inadequate system abilities re security of data • Inadequate controls and security protocol	• Data lost or compromised • Incorrect member records • Processing delays & errors • Retiring staff will be paid late • Reputational risk for the Fund • Breach of statutory requirements	• Financial impact to members • Loss of stakeholder confidence. • Financial cost to the fund if interest has to be paid to members. • Regulatory action		• Data security system settings & controls • Data back-up & recovery procedures		 No Change
Pension Administration (Risk appetite - minimalist) 16.Failure to keep pension records up-to-date and accurate	• Non-availability of pension / payroll systems • Resource unavailable • New staff undertaking duties • Increased workload • Failure to gain relevant information from employers to enable processing	• Processing delays • Processing errors • Retiring members will be paid late • Reputational risk for the Fund • Breach of statutory requirements	• Financial implications for members • Loss of stakeholder confidence • Financial cost to the fund if interest has to be paid to members • Regulatory action		• System contingency / recovery prioritised • Service prioritisation / allocation • Staff training • Scheduled communications / updates from employers		 No Change

Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
Governance (Risk appetite - minimalist) 17.Lack of expertise on Pension Committee, Pension Board or amongst officers	• Lack of training & continuous professional development • Loss of key individuals	• Detrimental decision making • Reputational risk for the Fund • Breach of statutory requirements • Failure to meet objectives	• Financial loss • Inability to meet overall strategic objectives • Increase in employer contribution requirements • Regulatory action • Loss of stakeholder confidence		• Key policies and governance arrangements independently audited and reviewed • Key officer meets MIFIID professional investor requirements • Training & support • External specialist advice		 Increased
Governance (Risk appetite - minimalist) 18.Over reliance on key officers	• Loss of key individuals • Inability to recruit individuals with specialist skills & experience • Inadequate governance arrangements • Lack of specialist advisors to support	• Detrimental decision making • Reputational risk for the Fund • Breach of statutory requirements • Failure to meet objectives	• Financial loss • Inability to meet overall strategic objectives • Increase in employer contribution requirements • Regulatory action • Loss of stakeholder confidence		• Key policies and governance arrangements independently audited and reviewed • Knowledge & experience of staff • External specialist advice • Peer support from other LGPS		 No Change

Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
Governance (Risk appetite - minimalist) 19. Failure to communicate adequately with stakeholders	• Inadequate communication policy • Inadequate processes & protocols with employers and scheme members	• Scheme members not aware of their rights • Employers not aware of regulations, procedures, etc. • Reputational risk • Breach of statutory requirements	• Sub-optimal decision making resulting to financial detriment of members • Errors in members calculations • Loss of stakeholder confidence • Regulatory action		• Communications policy • Standard documentation & communications • Website information • Standard key processes & protocols • Employer communications (e mails / info sessions / documentation / guidance • Adequately trained staff		 No Change
Funding - Employer related (Risk appetite - cautious) 20.Employer Covenant Risk	• Change in employer actuarial profile which has resulted in significant increase in liability • Unsuitable guarantee / financial health of employer	• Employers unable to financially provide for exit liability	• Inability to meet overall strategic objectives • Financial impact on overall funding level • Remaining employers required to accommodate the shortfall via increased contribution		• Government or local authority guarantees, bonds or securities over assets • Independent covenant review and financial assessments to identify • Funding strategy to enable exit at minimal risk to remaining employers		 No Change

Risk Type & Title	Causes	Impact	Consequence	Inherent Risk	Controls	Residual Risk (Previous Quarter)	Residual Risk (Current)
					• Affordable payment schedule independently assessed		
Governance (Risk appetite - minimalist) 21.Risks in relation to use of 3rd party service providers	• Inadequate policy • Poor due diligence and selection processes • Poor contract management	• Poor decision making • Failure of supplier adhering to contractual agreement • Reputational risk	• Financial detriment to the fund • Loss of stakeholder confidence		• Procurement policy • Contracts database • Documented contract management protocol • Use of national frameworks		 No Change
Funding - ESG (Risk appetite - cautious) 22.Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD)	• Inadequate policy & practices • Failing to understand incoming requirements • Failing to plan and implement changes required • Lack of knowledge & skills	• Poor decision making • Non-compliant actions being taken • Statutory breach • Reputational risk	• Failing to meet strategic objectives • Regulatory action • Loss of stakeholder confidence		• Regularly reviewed policies, processes and reporting • Project plans to meet changing requirements • Specialist advice as required • Training		 No Change

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ITEM No …5………..

REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD– 18 MARCH 2024

REPORT ON: TAYSIDE PENSION FUND PROCUREMENT POLICY

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 71-2024

1 PURPOSE OF REPORT

This report introduces the Procurement Policy of Tayside Pension Fund which sets out the minimum standards and requirements for managing outsourcing and third-party service providers across the key stages of the outsourcing lifecycle, and the criteria for assessing value for money of the functions and activities that are outsourced to third parties.

2 RECOMMENDATIONS

This policy is subject to annual review, and the Sub-Committee is asked to approve the policy, noting that there are no changes.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 BACKGROUND

The recommendations made by the Fund's Internal Auditors Pricewaterhouse Coopers (PwC) following an audit exercise that reviewed the framework in place to ensure that the Fund is provided with:

- adequate reporting to enable monitoring and oversight of key service providers
- evidence of review and challenge of the reporting as appropriate
- a framework to ensure that value for money is assessed on a regular basis

The audit noted that whilst there are practices in place around the selection and monitoring of providers which follow the formal procurement process in line with public sector requirements, they recommended that a formal policy be in place in order to strengthen the control environment.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

PROCUREMENT POLICY

Executive Director of Corporate Services

Dundee City Council, Administering Authority

March 2024

1. Introduction

Dundee City Council is the administering authority for the Tayside Pension Fund (TPF). The Council delegates this responsibility to the Pension Sub-Committee of the City Governance Committee. In recognition of their fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers, this policy sets out the minimum standards and requirements for managing outsourcing and third-party service providers across the key stages of the outsourcing lifecycle.

2. Aims

This policy aims to demonstrate a clear, well-structured approach to our procurement activities, stating what we'll do and how and when we'll do it in order to minimise the risk of inconsistent or poor practice in the management of outsourcing and third-party service providers.

3. Outsourcing Lifecycle

3.1. Initial risk assessment and selection of service providers

- We will ensure that our service requirements are fully assessed prior to embarking on all procurement exercises
- We will ensure that our staff have the appropriate knowledge, and all procurement exercises will be supported by procurement professionals to ensure fully compliant process
- We will utilise public sector procurement frameworks where possible (e.g. Norfolk LGPS Framework; Crown Commercial Services), adhering to the applicable policies and procedures This will also demonstrate value for money as the frameworks also provide price schedules
- Where procurement frameworks are not appropriate (e.g. investment mandates), specialist procurement, legal services and investment advisors will be used to ensure compliance and financial efficiency and effectiveness
- Any procurement waivers will require authority from the Executive Director of Corporate Services who undertakes the role of the S95 officer

3.2. Ongoing oversight and performance monitoring

- A contracts register will be maintained to ensure all relevant details are available and that ongoing procurement exercises are planned and actioned in a timely manner
- Contracts will be managed, with regular service meetings and reviews documented
- Performance will be annually assessed and reported to the Executive Director of Corporate Services, and Sub-Committee as appropriate, and in the case of investment mandates, an annual fees assessment will be undertaken as part of the annual independent performance review

3.3. Business Continuity Planning

- As part of the tender process, all suppliers will have to provide adequate business continuity plans, detailing support in event of failure of service supply
- As part of the tender process, all suppliers will have to provide response detailing transition arrangements at end of contract period
- All contract extensions will be subject to waiver process noted above as require authority from the Executive Director of Corporate Services

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ITEM No …6………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: **PENSION ADMINISTRATION PERFORMANCE – QUARTERLY UPDATE TO 31 DECEMBER 2023**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **73-2024**

1. PURPOSE OF REPORT

This report provides information on the recent quarter's operational performance in relation to Pension Administration.

2. RECOMMENDATIONS

The Sub-Committee is asked to note the contents of the report.

3. FINANCIAL IMPLICATIONS

There are no direct financial implications.

4. BACKGROUND

This report focusses on statutory performance and is subject to ongoing development to provide enhanced reporting functionality to improve the quality of information on administration performance and compliance.

5. SERVICE SUMMARY

Summary of Statutory Performance Requirements

The following table summarises the performance of the fund administration against statutory requirements:

	Received			Completed				Average Days			Cases beyond Statute at end of Qtr	% in target during Qtr
Category	Current	Prior	% change	Current	Prior	% change	Statute Days	Current	Prior	% change		
Starter	166	1515	-89%	2104	148	1322%	60	89	23	287%		35%
Estimate	154	162	-5%	133	164	-19%	60	76	80	-5%	2	39%
Options	384	520	-26%	438	487	-10%	60	67	60	13%	2	66%
Actual	275	321	-14%	287	338	-15%	60	20	18	12%		94%
TV In	59	58	2%	39	46	-15%	60	35	37	-5%		100%
TV Out	138	198	-30%	178	212	-16%	90	52	39	35%		95%
Deferred	377	257	47%	381	246	55%	60	36	46	-21%		86%
Death	214	148	45%	184	166	11%	60	15	18	-17%		98%
Death Grant	41	16	156%	33	21	57%	60	98	77	27%	1	58%
Dependant	69	56	23%	53	48	10%	60	28	33	-15%		96%
Divorce	16	28	-43%	6	26	-77%	90	52	55	-6%	3	83%
Total	1893	3279	-42%	3836	1902	102%					8	

The following provides further detail on statutory task data:

Overall Caseload:
Case volume received decreased in comparison to the last quarter by 42%, this almost wholly attributable to the previous quarter's catch up by employers of processing backlogs of their new starts. There were 8 cases were out-with statute at the end of the period.

Prioritised Tasks:

- **Issue of Pension Options & Pensions Brought into Payment**
  The team continues to give priority to the payment of benefits in line with TPR priorities. Over the period the following points are relevant:
    - There were 21% lower volumes of pensions options and benefit processing cases received in the period to end December.
    - Processing volumes and times were affected in this quarter by staff absence and key staff providing training. At end of the quarter, there were 2 options cases beyond statute.

- **Processing of Death Benefits, Payments of Death Grants, and Dependant Pensions**
    - Reported death cases increased by 45% in the quarter, and there was also an increase in dependent cases received of 23%.
    - A significant number of new Death Grant cases were received in this period (increase of 156% on the previous quarter). Death Grant cases are either Death in Service or deferment, or where pension benefits have been in payment for under 10 years. Complexity remains the significant factor in fluctuating processing times and number of cases completed.

Other Statutory Tasks:

- **New Member Processing:** A combination of employer catch ups of new starts, coupled with an identified system reporting issue accounted for the unusual case volumes reported at the end of the previous quarter. This took additional time and resource to rectify and also to process cases. In addition, a new workflow is in development to further automate this process.
- **Estimates:** Cases received during the quarter reduced very slightly against the previous quarter (5%) as a result of general estimate requests being sign-posted to the Member Self Service Portal. The remaining estimates are carried out by the team as they are final estimates, or more complex.
- **Deferred Member Processing:** There was a significant increase in caseload from the last quarter of 47%, signifying that larger volumes of members were leaving their employment. Completed cases increased by 55% as a result of increased resource in this area, with new staff having undertaken training.
- **Outbound Benefit Transfers:** Case volumes received decreased by 30%. Transfer cases have been put on hold by SPPA as revised guidance is awaited from Government Actuaries Department (GAD) in respect of the McCloud remedy. Only cases not subject to this have been processed.
- **Inbound Benefit Transfers**: Case volumes both in terms of received and completed remained fairly unchanged from the previous period. Processing volumes are restricted per above.
- **Divorces:** Cases received decreased by 43%, but again due to the restrictions noted (per transfers), this resulted in cases completed dropping by 77% in this quarter.

5.1 Other Pension Operations

The following table summarises the other operations undertaken in addition to statutory requirements:

	Received			Completed		
Category	Current	Prior	% change	Current	Prior	% change
Amendments	891	358	149%	889	349	155%
Certificates	54	200	-73%	137	163	-16%
Other admin tasks (e.g. age 55 reviews)	679	785	-14%	925	831	11%
Other pensions processes (e.g. refunds)	2534	737	244%	1475	1509	-2%

A large increase of other pension processes was noted as a result of the receipt of backlog of new members.

5.2 Employer Contributions

For the period there was only 1 late payment and 3 late submissions of employer contribution breakdown documents. These were quickly addressed and resolved. An Employers Forum was held in late November and the importance of the deadline for the receipt of returns and contributions was again reiterated to all employers.

Employers and Member Online Portals

5.3 MSS Update

At the end of the period there were 15,062 individual registered users of the Member Self Service Portal. This is an increase of 462 users in the last quarter.

5.4 I-Connect Update

The team continue to offer support to the remaining (large) employers to ensure their utilisation of the I-Connect Employers portal, which has been mandatory from April 2023 for monthly submissions. In the Employers Forum (November 2023) a revised deadline of January 2024 was issued for all employers to have finalised their payroll reporting and to have standardised reports to allow their I-Connect uploads to commence on a monthly basis.

5.6 Call Centre

The volume of inbound calls reduced in this quarter. This was expected as the previous quarter volumes were as a result of annual benefit statement queries. Calls answered totalled 2458, a decrease of 691 calls from the last quarter. Over the period, a total of 538 hours was spent on incoming calls, which continues to be a major resource for the team.

5.7 Prudential AVC

Disinvestment times remain consistent over the period, with funds being issued by Prudential within approximately 4 weeks after the disinvestment instruction is issued. The Fund continues to engage with Prudential collectively with other Scottish LGPS Funds to lobby for improved services.

5.9 Compliance

National Fraud Initiative - The following provides an update of the status of the 8 outstanding cases under investigation at end of previous quarter:

- One overpayment of £182.60 was fully recovered.
- One overpayment amounting to £6688.86 has been referred to DCC Debt Recovery for the issue of an invoice to the next of kin.
- Six cases remain outstanding at end of the quarter (£8853.03) with the current status as follows:
  - Two cases - no contact information identified for any family or next of kin.
  - Four cases - contact details of next of kin have been received and letters in respect of the overpayments have been issued.

Tayside Pension Fund would like to thank the DCC Fraud Section for their assistance in locating contact address details.

5.10 Recruitment

- Following recruitment in the previous quarter, two Pensions Assistants were appointed
- A recruitment exercise is underway to fill a vacant Clerical Assistant Post.

5.11 Queries & Complaints

- 3830 emails were received into the generic email account in the quarter to 31st December, this equates to approximately 62 emails per working day over the quarter. This is a decrease of 1,963 emails from the last period (where volumes were higher as a consequence of Annual Benefit Statement issue). E mail tasks continue to be a significant work allocation to all Pensions Assistants within the Team. This area is also being reviewed as part of the resourcing exercise.
- Complaints to Prudential: No escalated complaints were received during the quarter.
- GDPR: During the quarter there was 1 recorded instance of a GDPR breach reported.
- Complaints: During the quarter there was 1 complaint. This was not upheld.

5.12 Staff Training

During the quarter, both face to face and MS Teams based training continued to be provided to the newer employees carrying out both Pensions Assistant and Clerical Assistant roles. Whilst online training is undertaken, the majority of training is carried out in house, delivered by experienced staff, which is invaluable, however, the impact on the completion of caseloads is evident, and stretches the resources of the team as a whole. This will be considered in the wider resource review.

5.13 September CPI Rate Announced

On 18 October 2023, the Office for National Statistics announced the Consumer Prices Index (CPI) rate of inflation for September 2023 as 6.7%

Government policy in recent years has been to base increases under the Pensions (Increase) Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of CPI in September of the previous year, and official confirmation is awaited.

5.14 McCloud remedy

- **Local Government Association (LGA) support**

  The LGA has issued the initial volume of its McCloud remedy Guidance. The Guidance will be issued in instalments due to the volume and complexity of content. An administrator's webinar was held in early December which covered the topics in the first part of the guidance and allowed questions to be asked in relation to the guidance.

- **Transfers Out**

  From 1st October 2023, if a member qualifies for underpin protection, the method for calculating a transfer out of the Fund will be different if a member qualifies for underpin protection. This method will be set out in actuarial guidance which has not yet been published, and as such, these transfers remain on hold until the guidance is published by the Government Actuaries Department.

- **Club Memorandum**

  On 2 October 2023 the UK Cabinet Office published a revised Club Memorandum, effective from 1 October 2023. The revisions are mostly about the McCloud remedy. For members with McCloud protection, the Memorandum explains:

    - the information that must be exchanged
    - how to calculate the transfer
    - how to treat contribution differences.

  The Memorandum also covers:

    - how to deal with transfers between schemes with different revaluation dates
    - confirmation that the 12-month time limit can be extended
    - how to handle added CARE pension (this has changed from earlier guidance). Added CARE pension is only included in Club calculations if it has identical benefits as the rest

of the CARE pension in the sending scheme. This means it must have the same contingent survivor pension and in-service revaluation. For transfers from the LGPS, added CARE pension is non-club because it does not count towards survivor pensions. The only exception is added pension in LGPS Scotland to cover lost pension while on unpaid leave. This added pension does count towards survivor pensions and should be included in Club calculations.

- **Employee Factsheet and Letter**

  At the end of December 2023, a letter and factsheet was issued to all currently identified McCloud remedy scheme members. This provided them with details of the work to be carried out and re-affirmed that the work may take some time to be completed but that they do not have to contact us in order for this work to be done. A total of 12,612 letter were issued, 5563 via MSS and the remained of 7049 were posted.

5.15 SCAPE discount rate and impact on actuarial factors – update

On 3 October 2023, the Scottish Public Pensions Agency (SPPA) issued the fourth batch of actuarial factors. The new factors came into force from 3 October 2023, except the Club transfer factors, which are effective from 1 October 2023. This completed the review of the factors after the change to the SCAPE discount rate in March 2023.

5.16 New Unisex Added Pension Factors

The Scottish Public Pensions Agency (SPPA) has introduced new unisex added pension factors. Notification of this was received on 27 November 2023. These factors apply to new cases from 27 November 2023 and existing cases from 1 April 2024.

5.17 Employer/ Employee sessions

On 20th November an Employers Forum was held via Microsoft Teams. The session covered the following topics:

- Provisional Update on Valuation
- IConnect Plans and Future Updates
- Reminder in respect of the issue of monthly contributions and associated documentation
- Provisional Update on Pension Increase 2024
- McCloud Remedy Update and Employer Requirements

5.18 Annual Allowance Letters

The statutory exercise to issue Pension Input notifications to all those who had exceeded the Annual Allowance of £40000 was commenced towards the end of the previous quarter and completed by the statutory deadline of 6th October. 102 letters were issued, 85 via MSS and 17 via post.

6. REGULATIONS

Details of regulatory matters are contained in Appendix 1.

7. POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

8. CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

BACKGROUND PAPERS

None

ROBERT EMMOTT

EXECUTIVE DIRECTOR OF CORPORATE SERVICES **09 March 2024**

Appendix 1

REGULATORY COMMUNICATIONS

- **The Scottish Scheme Advisory Board (SAB)**

Annual Report 2021/22
https://lgpsab.scot/annual-report-2021-22/

The Scottish Scheme Advisory Board (SAB) has published its annual report for 2021/22.

The report is for LGPS members, employers, and other stakeholders. It covers:

- the work of the Board over the last financial year
- a summary of the financial position of L G P S funds in Scotland
- statistics on membership, benefits, contributions and investments.

Scheme Advisory Board meeting of 6 September 2023
https://lgpsab.scot/minutes-6-september-2023/

The Scheme Advisory Board (SAB) published the minutes of its meeting of 6 September 2023.

At the meeting, the Board received a presentation from GAD on the 2020 cost control valuation and an update from the Scottish Public Pensions Agency.

SAB November 2023 bulletin
https://lgpsab.scot/sab-bulletin-november-2023/

The SAB has published its November 2023 bulletin.

It provides a summary of its meeting held on 29 November 2023. The meeting covered:

- GAD report on membership data
- Economic Activity of Public Bodies (Overseas Matters) Bill
- investment changes in LGPS England and Wales
- the Scottish Government's plans to revise the exit credit rules
- SAB member training
- survey on good governance standards
- cost cap working group
- fee transparency system.

Wider Landscape

- **DWP**

Paul Maynard MP is the new pensions minister. He joined the Department for Work and Pensions (DWP) as Parliamentary Under Secretary of State on 13 November 2023 as part of the latest government reshuffle and replaces Laura Trott MP, who has become Chief Secretary to the Treasury.

- **HMRC**

Pension schemes newsletter 153
https://www.gov.uk/government/publications/pension-schemes-newsletter-153-october-2023/newsletter-153-october-2023

The newsletter contained articles and updates on the Managing Pension Scheme service including:

- migrating to the service

- using the service to create, compile and view event reports in-year for the tax year 2023/24 onwards
- using the service to submit pension scheme returns for tax years from 2023/24.

Pension schemes newsletter 154
https://www.gov.uk/government/publications/pension-schemes-newsletter-154-november-2023

The newsletter contained articles and updates on the Managing Pension Scheme service including:

- the Government's plan to fully abolish the lifetime allowance (L T A) from 6 April 2024.
- a request for schemes to remind members who have exceeded the annual allowance for tax year 2022/23 and do not have sufficient unused annual allowance to declare this on their self-assessment tax return, even if the scheme is going to pay the tax charge
- how to pay pension scheme charges when the scheme does not have a specific charge reference to make payment against.

Lifetime allowance guidance newsletter – December 2023
https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-december-2023/lifetime-allowance-guidance-newsletter-december-2023

The Government is legislating through the Finance Bill 2023/24 to fully abolish the lifetime allowance from 6 April 2024 and put in place new rules to determine the tax treatment of pension lump sums.

The newsletter gives information to support pension schemes to understand the changes.

It covers:

- the changes to certain lump sums
- the impact on lifetime allowance protections
- changes to reporting and disclosure
- the transitional arrangements.

- **The Pensions Ombudsman (TPO)**

Annual report 2022/23

https://www.pensions-ombudsman.org.uk/news-item/tpo-increases-number-pension-complaint-closures-49-202223

The Pensions Ombudsman (TPO) has published its annual report and accounts for 2022/23. The report includes statistics on TPO's caseload and performance for the year.

October Update

https://mailchi.mp/pensions-ombudsman/the-pensions-ombudsman-news-october?e=7883ce9a01

The Pensions Ombudsman (TPO) published its October 2023 update.

Court of Appeal rule TPO is not a competent court

The Court of Appeal has ruled in the case of The Pensions Ombudsman v CMG Pension Trustees Limited & Anor the Pensions Ombudsman (TPO) is not a 'competent court' for the purposes of enforcing a dispute regarding a monetary obligation under section 91(6) of the Pensions Act 1995.

This could affect how overpayments are recouped and monetary obligations due to misconduct are recovered from pension benefits when there is a disagreement over the amount. A T P O decision that allows recoupment / recovery may not be enough for enforcement; an order from a county court or another competent court may be needed.

TPO is currently reviewing its position and will provide an update shortly.

https://caselaw.nationalarchives.gov.uk/ewca/civ/2023/1258

Response to Court of Appeal ruling

TPO has expressed its disappointment about the recent Court of Appeal ruling that it is not a competent court for enforcing a dispute about a monetary obligation under section 91(6) of the Pensions Act 1995.

The ruling means that a TPO decision to allow recoupment / recovery from a pension is not enough to enforce it. The scheme also needs an order from a County Court.

The Department for Work and Pensions is supporting legislative changes to formally empower TPO to bring these disputes to an end without needing a County Court Order.

In the meantime, TPO has been working with stakeholders across the sector to review the management of such disputes to minimise the additional time and cost that has been added to the process. It has also published a recovery in overpayment cases factsheet to provide guidance to help schemes manage these disputes.

- **The Pensions Regulator (TPR)**

Governance and Administration Survey 2022-23 results

TPR published the results of its survey on governance and administration practices among public service pension schemes on 27 November 2023. The survey was carried out online from January to March 2023 and received responses from 191 of 204 public service pension schemes.

The survey covered topics such as risk management, annual benefits statements, breaches of the law and dashboards. It also asked LGPS administering authorities about actions in relation to climate related risks and opportunities.

Cyber security guidance

The Pensions Regulator (TPR) has revised its cyber security guidance.
https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2023-press-releases/cyber-security-guidance-revised-to-help-tackle-threat

The guidance helps trustees and pension scheme managers meet their duties to assess the risk, ensure controls are in place, and respond to incidents.

For the first time, the guidance asks pension schemes to report any significant cyber-related incidents to TPR on a voluntary basis as soon as is reasonably practicable. This will help TPR build a better picture of the cyber risk facing the industry and its members.

- **McCloud**

Compensation cases

The Department for Levelling Up, Housing and Communities (DLUHC) would like to know if administering authorities receive any applications for McCloud compensation.

For example, an authority might receive an application from a member who overpaid an annual allowance charge that HMRC will not refund.

Administering authorities, should send depersonalised details of each case to lgpensions@levellingup.gov.uk.

Dedicated areas of member websites

The LGA has created new areas in the member websites dedicated to the McCloud remedy for Scotland.
https://www.scotlgpsmember.org/mccloud-remedy/

The new pages include:

- a short video
- frequently asked questions
- an interactive 'Am I affected?' tool
- examples of how members might be affected
- detailed information about how the remedy will affect different types of members.

Initial prioritisation policy

On 12 October 2023, administering authorities in England and Wales were issued a link to DLUHC's initial policy on how to prioritise cases affected by the McCloud remedy.
The Scottish Public Pensions Agency (SPPA) agreed to use the same policy for administering authorities in Scotland.

On 16 October 2023, on SPPA's behalf, this was also emailed to Scottish authorities to circulate their version of the policy.

The policies are not yet final. They will be discussed with the McCloud statutory guidance working group. DLUHC and SPPA will also consult on the policies before a final version is issued early next year.

Interfund transfers and the underpin

Certain transfers for members with underpin protection are on hold until the actuarial guidance for transfers is updated for the McCloud remedy. DLUHC and SPPA confirm:

- administering authorities can continue paying interfund transfers for members with underpin protection using the methodology in the current actuarial guidance
- authorities will not need to review these payments when the guidance is updated.

The sending authority must make sure they provide the receiving authority with the information they need to perform accurate underpin calculations. The sending authority should have:

- loaded any hours changes and service breaks for the remedy period,
- validated that information, and
- if the member is over age 65, supplied the provisional underpin amount, provisional assumed benefits and the underpin date.

It should not be necessary for the receiving authority to take any additional steps to verify the information they receive.

Templates for member correspondence and disclosure article

Administering authorities must inform all members who might be affected by the changes as soon as possible and, in any event, by no later than 31 December 2023. The LGA Communications Working Group produced an article and template letter to aid administering authorities with this requirement.

In November 2023 a factsheet for members was published by the LGA. The factsheet is designed to be issued as a 'hard copy' so authorities can give it to members at in-person member events or post it to those members who have opted out of digital communications.

McCloud technical guide for administrators

On 15 November 2023, administering authorities received an email in relation to the first instalment of the LGA McCloud technical guide for administrators. The guide explains how the underpin protection works in the LGPS after the changes made because of the McCloud case. The guide will be released in instalments due to the breadth and complexity of the McCloud remedy project and because for guidance in some areas is still awaited.

McCloud webinars for administrators

McCloud Zoom webinars for pension administrators were held in December 2023 by the LGA. The webinars provided an opportunity to ask questions about the McCloud technical guide or the McCloud remedy more generally. Delegate questions will feed into the next version of the guide where there may be gaps and where further explanation is needed. There are further plans to run further similar events in 2024 when new guidance is published and the technical guide has been updated.

Remedy newsletter – October 2023
https://www.gov.uk/government/publications/public-service-pensions-remedy-newsletter-october-2023

The newsletter introduces the 'Calculate your public service pension adjustment service'.
https://www.gov.uk/guidance/calculate-your-public-service-pension-adjustment

This is for members who need to correct their tax position because of the McCloud remedy. The service will help members to:

- work out any repayments they are due for a lifetime allowance or annual allowance charge they have previously paid
- work out new, reduced or extra lifetime allowance or annual allowance charges that they may have to pay
- submit information for HMRC to review.

The newsletter also announces the launch of:

- interactive guidance for members to check if they are affected by the McCloud remedy https://www.gov.uk/guidance/check-if-you-are-affected-by-the-public-service-pensions-remedy
- full guidance on the remedy for members https://www.gov.uk/government/collections/how-the-public-service-pension-remedy-affects-your-pension
- full guidance on the remedy for administrators. https://www.gov.uk/government/collections/how-the-public-service-pensions-remedy-affects-pension-scheme-administrators

The guidance for administrators covers the pension tax rules to follow when implementing the McCloud remedy.

- **Pensions Dashboards**

Blog on common questions
https://www.pensionsdashboardsprogramme.org.uk/2023/10/12/common-questions-on-dashboards/

The Pensions Dashboards Programme (PDP) published a blog addressing some of the common dashboard questions.

The blog, written by Chris Curry, Principal of PDP, covers:

- How is connection guidance different to the connection deadline?
- When will guidance be published, and how will P D P engage with industry?
- Are there any examples of how dashboards will look?
- Will smaller schemes, 1 to 99 members, be required to connect to dashboards in the future?

Blog on recent queries
https://www.pensionsdashboardsprogramme.org.uk/2023/11/30/recent-queries-on-dashboards-standards-testing-and-public-availability/

The Pensions Dashboards Programme (PDP) published a blog covering the following recent queries they have received:

- When do PDP expect to publish dashboard standards?
- What are the different types of testing?
- When will the dashboards available point be?

PASA dashboard guidance

The Pensions Administrations Standards Association (PASA) has published Pensions Dashboards Connection Ready Guidance and a ‘Call to Action’.

The Connection Ready Guidance explains what being ‘connection ready’ means and what a typical scheme plan could look like. It covers five main areas: governance, matching, value data, technology and administration. For each area, it describes the key activities, how to do them, why they matter and how to show that they have been done.

The Call to Action lists the top five actions that schemes need to take now to prepare for dashboards. PASA will release further supporting materials in the next few months, such as practical tips for certain connection ready activities, checklist of key actions and outlines of connection ready decisions.

National LGPS Technical Group – AVC’s and dashboards

At its meeting of 29 September 2023, the National LGPS Technical Group agreed to form a sub-group to look at AVCs and dashboards.

The sub-group will work with all LGPS AVC providers to establish common approaches on matching and providing value data.

Progress from the sub-group will be published in the National LGPS Technical Group minutes on:
https://www.scotlgpsregs.org/bulletinsetc/tgminutes.php

PDP connection forum

PDP hosts a virtual connection forum via M S Teams around every eight to ten weeks. This is an informal platform that is not recorded or minuted. Attendees are provided with updates on PDPs progress and connection. The forum intends to facilitate discussion and questions and answers on relevant topics, such as data readiness, connection, standards, partial matching etc.

PDP webinar

On 1 November 2023, PDP hosted a webinar providing an update on pensions dashboards.

LGPS Pensions Dashboards connection guide

On 6 November 2023, administering authorities were contacted to advise them the LGA had published its draft LGPS Pensions Dashboards connection guide.

It will publish a final version of the guide when the Money and Pensions Service (MaPS) issues guidance on the staged timetable for connection and we have undertaken a final internal review.

The guide sets out the steps administering authorities need to take to connect to the dashboard’s ecosystem. It includes actions for authorities to take, decisions for them to make, statutory timings and recommendations on timings that are not prescribed. These are detailed throughout the guide and summarised in a ‘Preparing to connect checklist’. The non-prescribed timings will be revised when MaPS issue guidance on the staged timetable for connection.

TPR blog on dashboard checklist
https://blog.thepensionsregulator.gov.uk/2023/10/18/tick-off-tasks-one-by-one-with-our-pensions-dashboards-checklist/

The Pensions Regulator (TPR) published a blog encouraging schemes to follow their dashboard checklist. The blog also warns schemes they need to start preparing for dashboards now, as it will take time and involve a lot of work and that schemes should not lose focus of this while they wait for their target connection dates.

Pensions Dashboard Programme – November Newsletter

The newsletter includes links to:

- PDP’s eighth progress update report
- common questions on dashboards
- the Pensions Regulator’s blog on preparing for dashboards

- **Miscellaneous**

New CEO at Money and Pensions Service (MaPS)

On 16 October 2023, MaPS announced in a press release the appointment of Oliver Morley as its new CEO-). Mr Morley is currently the CEO of the Pension Protection Fund and will join MaPS on 1 February 2024.

ITEM No …7………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD– 18 MARCH 2024**

REPORT ON: **TAYSIDE PENSION FUND – AUDIT SCOTLAND ANNUAL AUDIT PLAN 2023/24**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **74-2024**

1 PURPOSE OF REPORT

This report provides a summary of the responsibilities and approach of Audit Scotland in respect of Tayside Pension Fund for 2023/24.

2 RECOMMENDATIONS

The Sub-Committee is asked to:

- Note the contents of the report by Audit Scotland (Appendix A)
- Provide Audit Scotland with confirmation of any instances of actual, suspected or alleged fraud, as a requirement of the revised International Standard on Accounting (ISA) 240.

3 FINANCIAL IMPLICATIONS

None

4 MAIN TEXT

4.1 Following Audit Scotland's appointment as external auditor for Dundee City Council for five years from 2022/23, they have produced the above report outlining the planned approach to the audit of Tayside Pension Fund ("the Pension Fund") for the year ending 31 March 2024. The document sets out the statutory and professional responsibilities in terms of the Code of Audit Practice and also outlines their key audit objectives.

4.2 The report in appendix A sets out information on the proposed audit approach focussing on the key issues and risks facing the Pension Funds in terms of corporate governance arrangements, ownership and valuation of investments, regulatory and accounting compliance and other issues relevant to the opinions on the financial statements. The document also sets out the key stages of the planned audit process, together with a summary of procedures for working with internal audit, materiality considerations and arrangements for communication and reporting.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

Tayside Pension Fund

Annual Audit Plan 2023/24

AUDIT SCOTLAND

Prepared for Tayside Pension Fund
March 2024

Contents

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of Tayside Pension Fund (the Fund). The main elements of our work include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary and the Annual Governance Statement
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

Respective responsibilities of the auditor and the Fund

2. The Code of Audit Practice sets out in detail the respective responsibilities of the auditor and the Fund. Key responsibilities are summarised below.

Auditor responsibilities

3. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements within the Fund. In doing this, we aim to support improvement and accountability.

The Fund's responsibilities

5. The Fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view. It must prepare other reports in the annual accounts in accordance with applicable requirements.

6. The Fund also has responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable it to deliver its objectives.

7. The audit of the annual accounts does not relieve management or the Pension Sub-Committee, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

8. In line with the ISA (UK) 240 *(The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements)*, in presenting this plan we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Fund have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration. Similar assurances will also be sought as part of the audit completion process.

Adding value

9. We aim to add value by tailoring audit work to the circumstances of the Fund and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Pension Sub-Committee and by recommending and encouraging good practice. In so doing, we intend to help the Fund promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts audit planning

10. The annual accounts are an essential part of demonstrating the Fund's stewardship of resources and its performance in the use of those resources.

11. As part of our audit we perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. We focus our work on the areas of the highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We have assessed materiality for the Fund as described in Exhibit 1 on page 6. During the audit we will also apply our risk based professional judgement to the extent of testing required of non-material account areas to reflect the needs of users of the accounts.

Exhibit 1
Materiality levels for the 2023/24 audit

Materiality	Amount
Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It is set based on our assessment of the needs of the users of the financial statements and the nature of the Fund's operations. For the year ended 31 March 2024 we have set our materiality at 2 per cent of gross assets based on the audited 2022/23 financial statements.	£97 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65 per cent of planning materiality.	£63 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£1 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the fund and consideration of its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, attendance at committees and review of other relevant information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identify significant risks of material misstatement to the financial statements. These are the risks that have the greatest impact on our planned audit procedures. Exhibit 2 on page 7 summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2
Significant risks of material misstatement to the 2023/24 financial statements

Risk of material misstatement	Sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by the management override of controls As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	• Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate any significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

Consideration of the risks of fraud in the recognition of revenue and expenditure

18. As set out in International Standard on Auditing (UK) 240*: The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. We have considered the risk of fraud over income recognition (ISA 240). We also considered the risk of fraud over expenditure, and the risk of external fraud (in accordance with Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK).

19. We have rebutted the presumption that a material risk exists, with the exception of management override, as noted in Exhibit 3 above. This is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- income and expenditure arising from dealing with members is in accordance with regulations with low inherent risk and effective internal control arrangements
- the Fund appoints a global custodian to safeguard the assets of the fund and ensure that all investment income and transactions are brought to account
- evidence from the National Fraud Initiative does not indicate material risks
- experience in the sector and of the audit of the Fund, including review of past misstatements.

20. As a result, our audit plan does not include any specific work in these areas in addition to our standard audit procedures.

Other areas of audit focus

21. As part of our assessment of audit risks, we have identified one other area where we consider there is a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider it to represent a significant risk. We will keep this area under review as our audit progresses.

22. The area of specific audit focus is the actuarial valuation of future retirement benefits. The valuation is based on a range of financial and demographic estimations about the future including investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements. To address this risk we will:

- Assess the competence, capabilities, and objectivity of the actuary in line with ISA 500.
- Review the information provided to the actuary by the Fund.
- Review the assumptions used by the actuary to reach the valuation of future retirement benefits.
- Review officers' arrangements for ensuring the completeness and accuracy of professional estimations for pensions.

Wider Scope

23. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

24. In summary, the four wider scope areas cover the following:

- **Financial management:** this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** we will consider the results of the recent triennial valuation and whether the Fund is planning effectively to achieve its long term objectives as outlined in the Funding Strategy Statement.
- **Vision, leadership, and governance:** we will conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** we will consider how the Fund demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

25. Our planned work on the wider scope areas is risk based and proportionate. We have identified one wider scope risk around the triennial valuation of the Fund as at 31 March 2023. The valuation was carried out by the Fund's actuary (Barnett Waddingham) during 2023/24. The results of the valuation will impact on future employer contribution rates, as well as the future funding and investment strategies of the Fund. The results of the valuation therefore present a risk to the financial sustainability of the Fund.

26. We will review the actuary's report on the triennial valuation of the Fund as at 31 March 2023 and consider related reports presented to the Pension Sub-Committee. We will also consider the impact of the valuation results on the Fund's future investment and funding strategies.

27. In addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

28. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy.

29. We will provide an Independent Auditor's Report to Tayside Pension Fund and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the Fund and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

30. Exhibit 3 outlines the target dates for our audit outputs.

Exhibit 3
2023/24 audit outputs

Audit Output	Target Date	Pension Sub-Committee Date
Annual Audit Plan	31 March 2024	18 March 2024
Independent Auditor's Report	30 September 2024	23 September 2024
Annual Audit Report	30 September 2024	23 September 2024

Source: Audit Scotland

31. This Annual Audit Plan, the other outputs detailed in Exhibit 3, and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

32. To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the annual accounts. A proposed timetable for the 2023/24 annual accounts audit is shown in Exhibit 4.

Exhibit 4
Proposed annual accounts timetable

Key stage	Provisional Date
Consideration of the unaudited 2023/24 Annual Accounts by those charged with governance	24 June 2024
Latest submission date for the receipt of the unaudited 2023/24 Annual Accounts with complete working papers package	30 June 2024
Latest date for final clearance meeting with the Senior Manager, Financial Services	11 September 2024
Agreement of audited 2023/24 Annual Accounts for consideration by Pension Sub-Committee	16 September 2024
Issue of proposed Annual Audit Report to those charged with governance (along with letter of representation and proposed Independent Auditor's Report)	16 September 2024
Pension Sub-Committee meeting to consider the Annual Audit Report and approve the audited annual accounts for signing	23 September 2024
Independent Auditor's Report certified by appointed auditor and Annual Audit Report finalised and issued	23 September 2024

Source: Audit Scotland

Audit fee

33. In determining the audit fee, we have taken account of the risk exposure of Tayside Pension Fund and the planned management assurances in place. The proposed fee for 2023/24 is £32,180 (£30,360 in 2022/23), an increase of 6 per cent. The Fund will receive a fee rebate of £846 in respect of unspent 2022/23 travel budgets. This can be offset against the 2023/24 audit fee meaning the net charge to the Fund for the year will be £31,334.

34. In setting the fee we have assumed that the Fund has sound governance arrangements in place and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable. The audit fee also assumes there will be no major changes in respect of the scope of the audit during the year. Where our audit cannot proceed as planned a supplementary fee may be levied.

Other matters

Internal audit

35. It is the responsibility of the Fund to establish adequate internal audit arrangements. The Fund's internal audit function is provided by PwC. We have reviewed internal audit's plan as part of our planning process.

36. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

External audit team

37. There is a change in the engagement lead for the Tayside Pension Fund audit this year as Brian Howarth, Audit Director, is retiring. The engagement lead (i.e. the appointed auditor) from the 2023/24 audit will be Rachel Browne, Audit Director. Rachel has over 25 years of public sector audit experience in local government, NHS and central government audits, including the audit of pension funds. The incoming and outgoing engagement leads are holding handover discussions to ensure a smooth transition.

38. There are also changes in the core audit team for 2023/24. Richard Smith will be the Senior Audit Manager for the audit and Mary O'Connor is the Senior Auditor. They will lead and manage the external audit team on a day-to-day basis and met with officers as part of our planning work to discuss the arrangements for the 2023/24 audit.

Independence and objectivity

39. We are independent of Tayside Pension Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

40. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

41. The Ethical Standard requires the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Fund.

Audit quality

42. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the Audit Scotland website.

43. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

44. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

45. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

46. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Tayside Pension Fund

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

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REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024

REPORT ON: INTERNAL AUDIT RISK ASSESSMENT & AUDIT PLAN 2024/25

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 75-2024

1 PURPOSE OF REPORT

This report sets out the risk assessment undertaken by PwC and details their internal audit plans for Tayside Pension Fund for 2024/25.

2 RECOMMENDATIONS

The Sub-Committee is asked to review and approve the Internal Audit plan by Pricewaterhouse Coppers (PwC) as detailed in appendix A.

3 FINANCIAL IMPLICATIONS

The cost for PwC services to undertake the annual internal audit requirements is £78,000 which is funded by Tayside Pension Fund.

4 MAIN TEXT

PwC have been appointed to provide a full internal audit service to fulfil the service requirements of annual audits for a 3-year period commencing 2021/22, with an option to extend for a further 2 years. The procurement exercise undertaken though Crown Commercial Services Framework, and the option of extension for a further 2 years has been exercised.

The report in appendix A details the risk assessment undertaken and outlines the planned approach to the internal audit of Tayside Pension Fund for the financial year, outlining the key audit objectives and methodology, setting out information on the proposed audit approach focussing on the key issues and risks in relation to the audit universe and key risks assessed. The document also sets out the key stages of the planned internal audit process, together with a summary of the timetable and detail of how PwC intend to form their independent audit opinion.

The proposed audits for 2024/25 are summarised below:

- Investment Strategy - Review of the design of key controls and governance that lead to advising on and setting the investment strategy.
- Outsourcing / 3rd Party Management - Review of the design and operating effectiveness of key controls in respect of third party management.
- Risk Management and Regulatory Compliance – Review of the design and operating effectiveness of key controls in respect of the Fund's risk management framework.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 **BACKGROUND PAPERS**

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

DRAFT FOR APPROVAL

Internal audit plan 2024/25

Tayside Pension Fund

March 2024

pwc

Contents

Distribution list

For action: Pension Sub-Committee

For information: Executive Director Corporate Services
Head of Corporate Finance
Senior Manager Financial Services

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Introduction and approach

Introduction

This document sets out our risk assessment and internal audit plan for 2024/2025 for the Tayside Pension Fund ("TPF").

We have refreshed our risk assessment of TPF's audit universe for 2024/2025 to provide us with the foundation for the development of the internal audit plan. This document sets out the proposed internal audit reviews to be completed, developed through discussion with management, for approval by the Pension Sub-Committee.

The internal audit service will be delivered in accordance with the Internal Audit Charter (See Appendix D). A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by TPF's strategic goals, and the risks that may prevent TPF from meeting those goals. A more detailed description of our approach can be found in Appendix A.

To develop this plan, we have considered:

- The areas where we believe TPF would benefit from an internal audit review (the audit universe);
- The risks and control environment associated with each area included in the audit universe;
- The most significant risks faced by TPF and the sector more generally; and
- The requirements of the internal audit service to provide an annual report and opinion (in line with PwC's Internal Audit methodology which is aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing).
- Previous areas of internal audit focus.

Approach to preparing the internal audit plan

We have set out below, based on our discussions with management and review of the TPF risk register, a summary of the reviews which will be part of the 2024/25 internal audit plan. On the current budget we propose the following reviews:

- Investment strategy
- Outsourcing / Third Party Management
- Risk Management

We will continue to keep this plan under review to ensure that it remains relevant and aligned to TPF's risks.

Costs and resources

The level of required resources for the internal audit service for the period 2024/25 is 47 days (£78,000).

Based on our risk assessment, this is the level of resource that we believe would be necessary to evaluate the effectiveness of risk management, control and governance processes for the purpose of providing an annual opinion. This plan is performed on a frequency basis and therefore the plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process every year. Accordingly, the level of internal audit activity represents a deployment of internal audit resources sufficient to cover some of the key risks each year, and in approving the risk assessment and internal audit plan, the Pension Sub-Committee recognises this limitation. The internal audit plan will be updated, where required, throughout the year to reflect any changes in the organisation, risk profile and areas of focus. We will agree all amendments with management and ensure that any changes are communicated to the Pension Sub-Committee as part of our regular progress monitoring.

Introduction and approach

PwC internal audit methodology

Step 1 Understand corporate objectives and risks	• Obtain information and utilise sector knowledge to identify corporate level objectives and risks.
Step 2 Define the audit universe	• Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.
Step 3 Assess the inherent risk	• Assess the inherent risk of each auditable unit based on impact and likelihood criteria.
Step 4 Assess the strength of the control environment	• Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.
Step 5 Calculate the audit requirement rating	• Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.
Step 6 Determine the audit plan	• Determine the timing and scope of audit work based on the organisation's risk appetite.
Step 7 Other considerations	• Consider additional audit requirements to those identified from the risk assessment process.

Other sources of assurance

Internal Audit is only one of a number of sources of assurance over the risks Tayside Pension Fund faces. In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. Summary of other sources of assurance is given below.

The other key sources of assurance for Tayside Pension Fund include:

- Audit Scotland as External Auditors;
- Dundee City Council Internal Audit;
- Annual Progress Review exercise; and
- National Fraud Initiative.

We do not intend to place formal reliance upon these other source of assurance but would not seek to duplicate the work they do.

Insight

We will provide insight by sharing any applicable thought leadership produced by PwC and through our interaction with stakeholders during the execution of our audit activities.

Annual plan and indicative timetable

The following table sets out the proposed internal audit work planned for the period 1 April 2024 - 31 March 2025.

Auditable Units	Audit title	Indicative number of audit days	Audit timing	Audit sponsor/Executive lead	Focus of review[1]
Investment strategy	Investment strategy	18	October/ November 2024	Senior Manager Financial Services	Review of the design of key controls and governance that lead to advising on and setting the investment strategy.
Outsourcing/ Third Party Management, Investment Managers	Outsourcing / Third Party Management	10	September 2024	Senior Manager Financial Services	Review of the design and operating effectiveness of key controls in respect of third party management.
Risk Management	Risk Management and Regulatory Compliance	10	January 2025	Senior Manager Financial Services	Review of the design and operating effectiveness of key controls in respect of the fund's risk management framework.
Internal Audit management time		9	Ongoing		Annual Audit Planning, Reporting, Contract Management, Attendance at Pension Sub-Committee
Total internal audit days		**47**			

[1]Each of the individual reviews will be agreed with management and will be based upon a detailed terms of reference. For the purposes of our audit planning we have completed initial work to identify the potential scope of our review, but these will be revisited prior to commencing each audit to ensure that it is still relevant.

Basis of our annual internal audit opinion/conclusion

Internal audit work will be performed in accordance with PwC's Internal Audit methodology which is aligned to Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

Mapping of internal audit opinion

Below we set out how our 2024/25 internal audit plan maps to the reporting requirements as set out in the Institute of Internal Auditors International Standards.

Review	Governance	Risk management	Control	Value for Money	Data quality
Investment strategy	x		x	x	
Outsourcing / Third Party Management	x		x	x	
Risk Management and Regulatory Compliance	x	x	x		x

Audit universe and risk assessment

The following table sets out the proposed internal audit work planned for the period 1 April 2024 - 31 March 2025.

3 year plan key:	
Reviews proposed for 24/25	Area to be considered in future IA plan

Audit Universe		Risk register mapping and risk ratings			PwC risk assessment methodology			
	Processes	Trustee risks	TPF risk rating (Inherent)	TPF risk rating (Residual)	Inherent Risk	Control Strength	Audit need	Frequency (3 year cycle)
Governance and oversight								
1	Business resilience	Inability to maintain service due to loss of main office, computer system or staff Over reliance on key officers	Very High	Medium	4	3	2.5	Every three years
2	Board effectiveness	Lack of expertise on Pension Committee, Pension Board or amongst officers Failure to comply with governance best practice.	Very High	Medium	4	3	2.50	Every three years
3	Stakeholder communication	Failure to communicate adequately with stakeholders	High	Medium	3	3	1.50	Every three years
4	Outsourcing/ Third Party Management	Loss of funds through fraud or misappropriation Risks in relation to use of 3rd party service providers	High	Medium	4	3	2.50	Every three years
Funding								
5	Employers Contributions	Failure to collect and account for contributions from employers and employees on time	High	Medium	5	4	3.00	Every three years

Processes	Previous assurance			3 year plan		
	21/22	22/23	23/24	24/25	25/26	26/27
Governance and oversight						
Business resilience	Excluded in the current year - TPF use the information services of Dundee City Council, and are considered as part of the wider Dundee City Council Internal Audit programme.					
Business resilience		Review: Succession planning (Satisfactory with Exceptions)			Consider	
Board effectiveness			Consolidated code of practice IA workshop and memo			Consider
Stakeholder communication			Review: Member Admin (Satisfactory with Exceptions)			Consider
Outsourcing/ Third Party Management	Outsourcing and Third Party Management (Medium Risk)			Proposed		
Funding						
Employers Contributions		Review: Contributions monitoring (Satisfactory with Exceptions)			Consider	

Audit universe and risk assessment

Audit Universe		Risk register mapping and risk ratings			PwC risk assessment methodology				Previous assurance			3 year plan		
Processes		Trustee risks	TPF risk rating (Inherent)	TPF risk rating (Residual)	Inherent Risk	Control Strength	Audit need	Frequency (3 year cycle)	21/22	22/23	23/24	24/25	25/26	26/27
Pension administration														
6	Pension Benefits & Payment	Failure to process pension payments and lump sums on time	High	Medium	5	4	3.00	Every three years			Review: Member Admin (Satisfactory with Exceptions)			Consider
		Failure to provide quality service to members	High	High										
7	Pension Record Keeping	Failure to keep pension records up-to-date and accurate Failure to process pension payments and lump sums on time Failure to hold personal data securely Failure to provide quality service to members	Very High	Medium	5	3	3.00	Every three years						Consider
Regulatory Compliance and Risk Management														
8	Risk management	Failure to comply with changes to LGPS regulations and other new regulations / legislation	Very High	Medium	4	3	2.50	Every three years	Risk Management and Regulatory Compliance (Medium Risk)			**Proposed**		
9	Compliance with LGPS & other regulations	Failure to comply with changes to LGPS regulations and other new regulations / legislation Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD)	Very High	Medium	4	3	2.50	Every three years	Risk Management and Regulatory Compliance (Medium Risk)		Consolidated code of practice IA workshop and memo		Consider	

Audit universe and risk assessment

Audit Universe		Risk register mapping and risk ratings			PwC risk assessment methodology				Previous assurance			3 year plan		
Processes		Trustee risks	TPF risk rating (Inherent)	TPF risk rating (Residual)	Inherent Risk	Control Strength	Audit need	Frequency (3 year cycle)	21/22	22/23	23/24	24/25	25/26	26/27
Finance & Treasury														
10	Financial Control	Loss of funds through fraud or misappropriation	High	Medium	4	3	2.50	Every three years	**Excluded in the current year - The external audit plan includes a significant focus on financial control. Financial controls were also considered where relevant to the FY25 Pension admin review. In addition, some of the financial controls go through the Council's channels (e.g. payments) and are included as part of the Council's Internal audit programme.**					
11	Treasury Management	Insufficient funds to meet liabilities as they fall due	High	Medium	5	3	3.50	Every two years			Review: Liquidity (Satisfactory with Exceptions)		Consider	
Information Services														
12	Business Continuity / DR / IT Resilience	Inability to maintain service due to loss of main office, computer system or staff	High	Medium	4	3	2.50	Every three years	**Excluded in the current year - TPF use the information services of Dundee City Council, and are considered as part of the wider Dundee City Council Internal Audit programme.**					
13	IT General controls / Cyber security	Failure to hold personal data securely Cybercrime	Very High	Medium	4	3	2.50	Every three years	**Excluded in the current year - TPF use the information services of Dundee City Council, and are considered as part of the wider Dundee City Council Internal Audit programme.**					
Investment Management														
14	Investment Managers	Failure of Investment Manager Significant rises in employer contributions due to poor/negative investment returns Failure of global custodian	High	High	5	3	3.5	Every two years				Inspection of investment manager third party assurance reporting		Consider
15	Investment Strategy	Equity Risk Employers unable to participate in scheme Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD)	High	High	5	3	3.5	Every two years			ESG workshop memo	**Proposed**		Consider

Audit universe and risk assessment

Key to frequency of audit work

Audit requirement rating	Frequency
6 - 4.5	Annual
4 - 3.5	Every two years
3 - 1.5	Every three years
1	No further work

Performance of internal audit

Key performance indicators

To ensure your internal audit service is accountable to the Pension Sub-Committee and management, we have in place the following key performance indicators.

Quality assurance and improvement programme

Our internally focused quality assurance system and service quality standards are outlined below:

Internal quality review programme - We undertake internal quality reviews of our audit engagements on a sample basis.

Engagement compliance reviews (ECR) - On an annual basis, files are selected for review to ascertain compliance with internal auditing standards and PwC quality standards.

Staff performance - Development of our people is underpinned by a careful evaluation of their performance. Each member of staff must set performance objectives prior to an internal audit assignment and a project appraisal form is completed at the end

KPI	Target	2023/24 performance
Planning		
% of audits with Terms of Reference	100%	100%
Terms of Reference agreed promptly	No less than 2 weeks prior to review	Minimum 2 weeks prior to review
Fieldwork		
% of audits with an exit meeting	100% of reviews	100%
Reporting		
Draft reports issues promptly	Maximum 3 weeks from completion of review	Maximum 3 weeks from completion of review
Progress and other papers to Pension Sub-Committee	14 days before each meeting	On track
Attendance at Pension Sub-Committee	100%	On track
Relationships		
Response times to requests for information	Requests for information from TPF responded to within 48 hours	On track

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Appendices

Appendix A: Detailed methodology

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Step 1 – Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy and risk register;
- Drawn on our knowledge of the sector; and
- Held discussions with a number senior management members.

Step 2 – Define the audit universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for Tayside Pension Fund made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 – Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix B.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and the sector; and
- Discussions with management.

Impact Rating	Likelihood rating					
	6	**5**	**4**	**3**	**2**	**1**
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Appendix A: Detailed methodology

Step 4 – Assess the strength of the control environment

- In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:
- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- Discussions with management.

Step 5 – Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	6	5	4	3	2	1
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

Step 6 – Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

Step 7 – Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

Appendix B: Risk assessment criteria

Determination of inherent risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Likelihood rating	Assessment rationale
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

Impact rating	Assessment rationale
6	Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability.
5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation’s operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation’s operational performance; or Minor monetary or financial statement impact;; or Minor breach in laws and regulations with limited consequences;; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation’s operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

Appendix C: Independence

We confirm that in our professional judgement, as at the date of this document, Internal Audit staff have had no direct operational responsibility or authority over any of the activities planned for review. We can confirm that as an organisation we are independent from **Tayside Pension Fund.**

Appendix D: Internal audit charter

Purpose and scope

This Internal Audit Charter provides the framework for the conduct of the Internal Audit function in Tayside Pension Fund and has been approved by the Pension Sub Committee. It has been created with the objective of formally establishing the purpose, authority and responsibilities of the Internal Audit function.

Purpose

Internal Auditing is an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Scope

All of Tayside Pension Fund's activities (including outsourced activities) and legal entities are within the scope of Internal Audit. Internal Audit determines what areas within its scope should be included within the annual audit plan by adopting an independent risk based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit program includes obtaining an understanding of the processes and systems under audit, evaluating their adequacy, and testing the operating effectiveness of key controls. Internal Audit can also, where appropriate, undertake special investigations and consulting engagements at the request of the Pension Sub Committee.

Notwithstanding Internal Audit's responsibilities to be alert to indications of the existence of fraud and weaknesses in internal control which would permit fraud to occur, the Internal Audit activity will not undertake specific fraud-related work.

Internal Audit will coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Appendix D: Internal audit charter

Authority, responsibility and independence

Authority

The Internal Audit function of Tayside Pension Fund derives its authority from the Pension Sub Committee. The Chief Audit Executive is authorised by the Pension Sub Committee to have full and complete access to any of the organisation's records, properties and personnel. The Chief Audit Executive is also authorised to designate members of the audit staff to have such full and complete access in the discharging of their responsibilities, and may engage experts to perform certain engagements which will be communicated to management. Internal Audit will ensure confidentiality is maintained over all information and records obtained in the course of carrying out audit activities.

Responsibility

The Chief Audit Executive is responsible for preparing the annual audit plan in consultation with the Pension Sub Committee and senior management, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Pension Sub Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Pension Sub Committee and senior management.

The Chief Audit Executive is responsible for ensuring that the Internal Audit function has the skills and experience commensurate with the risks of the organisation. The Pension Sub Committee should make appropriate inquiries of management and the Chief Audit Executive to determine whether there are any inappropriate scope or resource limitations.

It is the responsibility of management to identify, understand and manage risks effectively, including taking appropriate and timely action in response to audit findings. It is also management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of an Internal Audit function, therefore, does not in any way relieve them of this responsibility.

Management is responsible for fraud prevention and detection. As Internal Audit performs its work programs, it will be observant of manifestations of the existence of fraud and weaknesses in internal control which would permit fraud to occur or would impede its detection.

Independence

Internal Audit staff will remain independent of the fund and they shall report to the Chief Audit Executive who, in turn, shall report functionally to the Pension Sub Committee and administratively to the Senior Manager (Financial Services).

Internal Audit staff shall have no direct operational responsibility or authority over any of the activities they review. Therefore, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Chief Audit Executive, then the Pension Sub Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

Appendix D: Internal audit charter

Professional competence, reporting and monitoring

Professional competence and due care

The Internal Audit function will perform its duties with professional competence and due care. Internal Audit will adhere to the Definition of Internal Auditing, Code of Ethics and the Standards for the Professional Practice of Internal Auditing that are published by the Institute of Internal Auditors.

Internal Audit will also adhere to the requirements of the Public Sector Internal Audit Standards (PSIAS).

Reporting and monitoring

At the end of each audit, the Chief Audit Executive or designee will prepare a written report and distribute it as appropriate.

The Pension Sub Committee will be updated regularly on the work of Internal Audit through periodic and annual reports. The Chief Audit Executive shall prepare reports of audit activities with significant findings along with any relevant recommendations and provide periodic information on the status of the annual audit plan.

The performance of Internal Audit will be monitored through the implementation of a Quality Assurance and Improvement Programme, the results of which will be reported periodically to Senior Management and the Pension Sub Committee.

Appendix D: Internal audit charter

Definitions

Pension Sub Committee	The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
Senior management	The individuals at the highest level of organisational management who have day-to-day responsibility for managing the organisation.
Chief audit executive	Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity. The specific job title of the Chief Audit Executive may vary across organisations. Throughout this document, the term ‘Chief Audit Executive’ refers to Fraser Wilson, PwC Partner.

Thank you

pwc.co.uk

ITEM No …9………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: **TAYSIDE PENSION FUND INTERNAL AUDIT REPORTS –PENSIONS ADMINISTRATION & LIQUIDITY**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **76-2024**

1 PURPOSE OF REPORT

To submit to the Audit Reports prepared by the Fund's Internal Auditor, PricewaterhouseCoopers (PwC).

2 RECOMMENDATIONS

Members are asked to note the content of the report on the audit exercises undertaken, and to approve the management response.

3 FINANCIAL IMPLICATIONS

None.

4 MAIN TEXT

4.1 Internal Audit Report – Pensions Administration (Appendix A)

The report details the review undertaken that focused on the specific areas of pensions administration, including follow up of issues identified in the previous audit of pensions administration in 2020. PwC have provided an overall rating of satisfactory with exceptions, and medium risk. Further details are included in Appendix A of this report.

4.2 Internal Audit Report – Liquidity (Appendix B)

The report details the review of the design and operating effectiveness of key controls in place relating to the Fund's long and short term cash flow requirements. PwC have provided an overall rating of satisfactory, and low risk. Further details are included in Appendix B of this report.

4.3 The findings and recommendations of the audits have been discussed with management and responses are contained within the reports. The implementation of the agreed management actions will be monitored, with progress being reported to the Sub-Committee in due course.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services has been consulted on the content of this report and agree with the contents.

7 BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **08 MARCH 2024**

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Internal audit report 2023/24

Pensions Administration

Tayside Pension Fund ("TPF")
Final

March 2024

Contents

This is a draft prepared for discussion purposes only and should not be relied upon; the contents are subject to amendment or withdrawal and our final conclusions and findings will be set out in our final deliverable.

Distribution list

For action:
Lynne Mackenzie (Pensions Administration Manager (Corporate Services) and Tracey Russell (Service Manager - Financial Services)

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Executive summary

Report classification

Satisfactory with exceptions (8 points)

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	-	2	2	1
Operating effectiveness	-	-	-	-	-
Total	-	-	**2**	**2**	**1**

Background and scope

Tayside Pension Fund has been administered by Dundee City Council since 1st April 1996. It is part of the Local Pension Government Scheme (LGPS), which is a statutory scheme established under the primary legislations of the Superannuation act 1972 and Public Service Pensions Act 2013.

Tayside's participating employers include local authorities, as well as their subsidiary companies and contractors; a number of universities and colleges, and a range of organisations with funding or service links to local government. The last pensions administration Internal Audit review was performed in 2020 and was rated "Satisfactory with exceptions". This review included design and operating effectiveness assessment of controls surrounding the payment of pensions. Our 2024 review has focused on the following areas of pensions administration, including follow up of issues previously identified in relation to these:

- Refund of contributions;
- Deaths; and
- Payment of retirement benefits.

Summary of findings

The overall rating of this report is 'Satisfactory with Exceptions' driven by two Medium-rated, two Low-rated findings and one advisory finding. These are summarised in the table on the following page. Full details, alongside agreed actions from management are within the following sections of the report.

The following areas of good practice were identified:

- TPF has adequate controls in place to ensure the accuracy of contribution refund calculations, including the calculations of applicable deductions.
- Effective controls are in place to ensure prompt notification, identification and recording of member deaths.
- TPF have appropriate approval matrices in place to ensure segregation of duties in the processing and approval of administration tasks.

Executive summary (cont.)

The points below outline where we have observed areas of improvement across the scope objectives of this review:

Sub-process	Scope Objectives
Payment of Retirement Benefits	• TPF has controls in place to ensure that retirement benefit calculations are reviewed by an appropriate officer who has the required training and experience to perform their role. • Quality assurance programme is in place to ensure that calculation processes and controls are reviewed and monitored, as well as the timeliness of the processing of retirement payments. • Approval controls are in place to ensure all transactions are authorised by a senior member of staff.
Refund of Contributions	• TPF has controls in place to ensure the accuracy of contribution refund calculations, including calculation of any applicable deductions. • The refund process is clearly documented in adequate policies and procedures. • Controls are in place to ensure refunds are approved and authorised by an appropriate officer. • Adequate segregation of duties across the refund processes are in place. • Controls are in place to process contributions refunds in a timely manner to avoid unnecessary delays to members.
Deaths	• Effective controls are in place to ensure prompt notification, identification and recording of member deaths. • Procedures are in place to verify the accuracy of death information, including obtaining official documents. • Deaths are processed in a timely manner to prevent overpayments of benefits. • Performance metrics are in place to monitor the quality and timeliness of deaths processing. • Training is in place to ensure that administrators processing deaths and senior administrators checking cases are competent to perform their roles.

Summary of findings

Finding 1 - No QA process for key administration tasks (Medium): There is no formal QA process in place whereby sample testing of the key administration processes occurs. TPF are reliant on the Team Lead reviewing aged cases / tasks by generating a weekly spreadsheet report of outstanding live cases. There is no sample testing of the population of cases for these administration processes to give assurance over the quality of completeness, accuracy, timeliness and documentation for these processes.

Finding 2 - Lack of system audit trail for approvals (Medium): Within the Altair system, for each individual case there is a commentary box which is used to record the steps of the process, including review and approval. Anybody within the team has access to edit this commentary box and add their initials to say that it has been approved. Therefore there is an absence of preventative controls to stop an incorrect user from documenting an approval and incorrectly editing the audit trail of the case. Additionally, when the payments for refunds and retirement benefits are approved in the Sundry system, there is no audit trail maintained within the Sundry system that records the approval. We could not evidence audit trail documentation from the system detailing when, and by whom, the payment was approved.

Finding 3 - No documented training plan or formalised tracking of training completion (Low): Our review of the training in place found that there are no formalised and documented annual training plans for existing team members to ensure that knowledge is kept up to date. Additionally, although it is noted that the Operations Team Leader maintains a tracker for the training that the team have previously completed, this tracking is reliant on being manually updated, and during our walkthroughs of this process, it was identified that this is not updated on a regular basis to ensure that it is accurate and complete.

Finding 4 - Lack of documented version control of procedures (Low): Our review identified that TPF are reliant on using ‘training notes’ as procedural guidance for these processes. These procedures do not have any documented version control or approval from a relevant senior member documented within them.

Finding 5 - Opportunity for automation of manual processes and controls (Advisory): We noted that TPF are dependent on certain manual processes for the processing and managing of the three areas of administration in scope for this review. This manual processing increases the risk of errors, inefficiencies and delays and hinders the potential to streamline the efficiency of the processes. There is opportunity for TPF to consider automating these manual processes and controls.

Current year findings

1 No QA process for key administration tasks

Control Design

Finding rating

Impact	3
Likelihood	iv
Rating	Medium

Finding and root cause

Quality Assurance (QA) processes are typically utilised to ensure accuracy, completeness and compliance of administration tasks through periodic monitoring, and review and testing of documentation.

Our review identified that within TPF there is no formal QA process in place whereby sample testing of the key administration processes occurs. TPF are reliant on the Team Lead reviewing the aged cases / tasks by generating a weekly spreadsheet report of outstanding live cases. This provides an overview of the cases which are long outstanding and are reviewed to ensure appropriate actions are undertaken by the team members, as well as understanding how the query can be resolved.

However, there is no sample testing over the entire population of cases for these administration processes to give assurance over the quality of completeness, accuracy, timeliness and documentation for these processes. Therefore, there is a lack of controls in place to identify any systemic process and control deficiencies or gaps.

Potential implications

The absence of a Quality Assurance process increases the risk that issues are not identified or resolved in a timely manner which may result in inaccuracies when processing administration tasks leading to member detriment and reputational damage.

Additionally, QA processes provide valuable insights into areas of improvement, and without a QA process in place potential opportunities for improved efficiency and accuracy may be missed.

Recommendations

1.1 Implement proportionate QA processes over the key administration process areas which includes sample testing of documentation, evidence, system actions and team review processes.

1.2 Document the QA process, roles and responsibilities within the relevant policies and procedures.

Management action plan

1.1 The QA facility and roles will be included in as part of the larger review of TPF structure, resourcing and role review which was recommended in the previous audit review of Business Resilience.

1.2 The documentation of the QA process and procedures will follow this review.

Responsible person/title:

Tracey Russell (Service Manager, Financial Services)

Target date: 30 September 2024

Current year findings

2 Lack of system audit trail for approvals

Control Design

Finding rating

Impact	3
Likelihood	iv
Rating	Medium

Finding and root cause

To process pensions administration tasks, TPF use the Altair system to record and manage all cases and the Sundry system to approve and process payments for refunds of contributions and payment of retirement benefits. Cases are created in the Altair system by the Pensions Administration team once identified through notification from a member.

For each individual case within the Altair system there is a commentary box which is used to record the steps of the process, including documenting the processing of the case and subsequent review and approval. Both the maker and checkers write their initials and dates within this commentary box. Although there is a separate audit trail in the Altair system which shows when each stage is complete, anybody within the team has access to edit this commentary box and add their initials to say that it has been approved. Therefore, there is an absence of preventative controls to stop an incorrect user from documenting an approval and incorrectly editing the audit trail of the case. This increases the risk of cases and payments being recorded as approved when approval from the correct individual did not occur.

Additionally, when the payments for refunds and retirement benefits are approved in the Sundry system, the approval is documented in the commentary box (as above) but there is no audit trail maintained within the Sundry system that records the approval. Although a remittance advice is generated by the system once payment is approved, we could not evidence audit trail documentation from the system detailing when, and by whom, the payment was approved.

Potential implications

If systems do not record an audit trail of the approver or if the audit trail can be edited, this increases the likelihood of unauthorised or incorrect changes to the audit trails and approvals. This may lead to a lack of accountability and an increased risk of fraud.

Recommendations

2.1 When the upgraded version of the Sundry system has been implemented at TPF, the system should have new system abilities to maintain an appropriate audit trail of each payment that is approved, including the data and the individual who approved them.
NOTE: TPF plan to implement a new Sundry system in 2024 which will enable new system capabilities to document an audit trail for the approval of each payment.

In respect of Altair, our audit testing did not identify any exceptions regarding review and approval of calculations. We observed that each activity was initialled on the system by: (i) the “doer” (evidencing completion of the task); and (ii) the “checker” (evidencing review of the task). Management has explained that due to system restrictions, this evidence of completion and review is only able to be recorded in the commentary box (which can be overwritten). The system does not provide logging functionality. As such, Management has chosen to risk accept the fact that evidence of competition and review can be overridden. The risk associated with this is in part mitigated by the fact that access to the system is restricted to members of the administration team.

Current year findings

2 Lack of system audit trail for approvals

Control Design

Management action plan

2.1 Sundry payments to members & beneficiaries are done via the Council's financial systems. The introduction of the Civica Sundry System will demonstrate an appropriate audit trail of authorisation & control.

In relation to the limitations of the Altair system, the risk is accepted and mitigated as far as possible.

Responsible person/title:

Tracey Russell (Service Manager, Financial Services)

Target date: 30 September 2024

Finding rating

Impact	3
Likelihood	iv
Rating	Medium

Current year findings

3 No documented training plan or formalised tracking of training completion

Control Design & Operating Effectiveness

Finding rating

Impact	3
Likelihood	iii
Rating	Low

Finding and root cause

Within TPF, all new joiners are required to undergo mandatory training which is automatically assigned to them on the online training system, based on their role and responsibilities. Once they have completed the mandatory training, they are provided with training notes on the processes and they will shadow existing team members until they are confident to handle the process independently.

Our review of training in place found that there are no formalised and documented annual training plans for existing team members to ensure that knowledge is kept up to date. Although there is a defined online training plan for new joiners, there is no evidence of a continuous plan to refresh and manage knowledge within the team.

Additionally, although a training tracker exists and should be manually updated by the Operations Team Leader, we noted that it had not been updated recently and on a regular basis to ensure that it is accurate and complete.

Potential implications

Without having a documented annual training plan which can be monitored against, there is an increased risk that training needs are not identified and there is a greater knowledge gap within the team in relation to these processes. This may lead to inefficiencies or inaccuracies within the administration tasks.

If the training tracker is not updated and reviewed on a regular basis there is an increased risk that team members are not completing the appropriate level of training in a timely manner.

Recommendations

3.1 Document a training plan for all roles involved in the pensions administration processes which sets out the applicable training which needs to be completed and due dates for each. This plan should be reviewed and approved on an annual basis to ensure that training needs are kept up to date. It should also clearly state how frequently the training tracker should be updated and reviewed to identify.

3.2 Update the training tracker so that it is up to date and reflective of all training performed since it was last reviewed.

Management action plan

3.1 Training plan for all staff to be created, maintained and reviewed annually. Responsibility for this will be allocated in conjunction as part of the larger review of the TPF structure, resourcing and role review as previously mentioned.

3.2 Training tracker to be updated with immediate effect and maintained.

Responsible person/title:

Tracey Russell (Service Manager, Financial Services)

Target date: 30 September 2024

Current year findings

4 Lack of documented version control within procedures

Control Design

Finding rating

Impact	2
Likelihood	iv
Rating	Low

Finding and root cause

As part of our audit, we reviewed the documentation of processes and controls in place for the following three pensions administration areas:

- Refund of contributions;
- Deaths; and
- Payment of retirement benefits.

Our review identified that TPF use 'training notes' as procedural guidance for their processes. These training notes provide step by step guidance on how to complete the administration processes within the relevant systems. However, they do not include documentation for version control or sign-off from a relevant senior member. Although we have seen evidence that there is a separate version control tracker for these procedures, which includes latest annual review dates, the tracker does not state who the documents were reviewed and approved by.

Additionally, when reviewing the tracker for procedure version control, it was identified that the approval matrices and Sundry authorisation limits were not included in the tracker and therefore have no documented approval and version control to ensure that these are kept up to date. Therefore, we were unable to evidence when these were last reviewed.

Potential implications

Without formal version control documented in procedures, there is an increased likelihood of errors within this guidance and challenges when tracking changes, and unclear roles and responsibilities for these processes. This can impact the accuracy and completeness of these processes, ultimately resulting in member detriment and financial impacts.

Additionally, there is an increased risk that TPF are reliant on using an outdated training note if there is no clear version control added to the document.

Recommendations

4.1 Document formal procedures for the key administration process areas which includes version control, identifies key roles and responsibilities, and documents who has reviewed the procedure documentation.

Current year findings

4 Lack of documented version control within procedures

Control Design

Management action plan

4.1 Whilst formal procedure documentation is in place, this will now include version control, and the recommendation of annual review of key processes is accepted, and will be resourced and recorded per recommendation.	Responsible person/title: Tracey Russell (Service Manager, Financial Services) Target date: 30 September 2024

Finding rating

Impact	2
Likelihood	iv
Rating	Low

Current year findings

5 Opportunity for automation of manual processes and controls

Control Design

Finding rating

Impact	N/A
Likelihood	N/A
Rating	Advisory

Finding and root cause

TPF are dependent on certain manual processes for the processing and managing of the three areas of administration in scope for this review. This manual processing increases the risk of errors, inefficiencies and delays and hinders the potential to streamline the efficiency of the processes.

The following areas of the processes which are reliant on manual controls are detailed below:

Processing of Payments:

- As part of the payments process for refunds and retirement benefits, there is manual input of the payments data due to be processed. This includes manual input of: the name of the member, the specific ledger code, employer details, bank account details, and number of contributions made by the employer.
- Once the new Sundry system is implemented within TPF, there is an opportunity for data to flow automatically into the Sundry payment system in order to streamline the processing of payments once they have been approved.

Reporting:

- Manual extraction of data and reporting from the Altair system on a weekly basis by the Team Leader, which includes all open cases of deaths, refunds and retirement payments.
- Manual processes for tracking all cases. Currently, the tracking of open cases is documented in a single spreadsheet which is manually updated by the Team Leader for case monitoring.

There is an opportunity for data to be managed and communicated directly via automatic Altair data extracts and reports instead of a manually extracted and maintained spreadsheet. It is noted that TPF is currently implementing an automated real-time dashboard within the Altair system which will replace the manual reporting.

Potential implications

A reliance on manual controls and processes increases the risk of administration errors, inefficiencies and compliance risks. A lack of automation of these processes can hinder the accuracy and timeliness of tasks.

NOTE: In respect of Altair, our sample audit testing did not identify any exceptions regarding review and approval of activities. We observed that each activity was initialled on the system by: (i) the “doer” (evidencing completion of the task); and (ii) the “checker” (evidencing review of the task). As such, this provides comfort that manual activities are being reviewed for completeness and accuracy. We are therefore raising the above as “advisory” to support the future operation of the administration function.

Current year findings

5 Opportunity for automation of manual processes and controls

Control Design

Finding rating

Impact	N/A
Likelihood	N/A
Rating	Advisory

Recommendations

5.1 Implement an automated workflow to replace manual input of payment information data into the Sundry system.

5.2 Implement system reporting which is automatically extracted from the Altair system on a timely basis and automatically shared with the relevant team members.

Management action plan

5.1 In relation to the introduction of the new sundry payment system, any automated functionality between the 2 standalone systems will be utilised, but may be limited.

5.2 Insights (Altair Management Dashboard) is currently in testing phase and once fully implemented will meet the recommendation made. This is expected to be fully functional by September 2024.

Responsible person/title:

Tracey Russell (Service Manager, Financial Services)

Target date:
5.1 - 31 March 2025
5.2 - 30 September 2024

Appendices

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Appendix A: Basis of our classifications

Individual finding ratings

Findings are assessed on their impact and likelihood based on the assessment rationale in the tables below.

Impact rating	Assessment rationale
6	A finding that could have a: • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
5	A finding that could have a: • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in large fines and consequences; or • Significant impact on the reputation or brand of the organisation.
4	A finding that could have a: • Major impact on operational performance; or • Major monetary or financial statement impact; or • Major breach in laws and regulations resulting in significant fines and consequences; or • Major impact on the reputation or brand of the organisation.
3	A finding that could have a: • Moderate impact on the organisation's operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations with moderate consequences; or • Moderate impact on the reputation of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Impact rating	Assessment rationale
2	A finding that could have a: • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
1	A finding that could have a: • Insignificant impact on the organisation's operational performance; or • Insignificant monetary or financial statement impact; or • Insignificant breach in laws and regulations with little consequence; or • Insignificant impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Likelihood

Likelihood rating	Assessment rationale
vi	Has occurred or probable in the near future
v	Possible in the next 12 months
iv	Possible in the next 1-2 years
iii	Possible in the medium term (2-5 years)
ii	Possible in the long term (5-10 years)
i	Unlikely in the foreseeable future

Appendix A: Basis of our classifications

Finding rating

This grid is used to determine the overall finding rating. Issues with a low impact and likelihood rating will not be reported.

	Impact rating					
Likelihood rating	**6**	**5**	**4**	**3**	**2**	**1**
vi	Critical	Critical	High	High	Medium	Medium
v	Critical	High	High	Medium	Medium	Low
iv	High	High	Medium	Medium	Low	Low
iii	High	Medium	Medium	Low	Low	Low
ii	Medium	Medium	Low	Low	Low	Not reportable
i	Medium	Low	Low	Low	Not reportable	Not reportable

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
Satisfactory	6 points or less
Satisfactory with exceptions	7 – 15 points
Needs improvement	16 – 39 points
Unsatisfactory	40 points and over

Appendix B: Terms of reference

Background

Tayside Pension Fund has been administered by Dundee City Council since 1st April 1996. It is part of the Local Pension Government Scheme (LGPS), which is a statutory scheme established under the primary legislations of the Superannuation act 1972 and Public Service Pensions Act 2013.

Tayside's participating employers include local authorities, as well as their subsidiary companies and contractors; a number of universities and colleges ; and a range of organisations with funding or service links to local government.

Since our last pensions administration Internal Audit review in 2020 which was rated 'Medium risk', the administration processes and systems remain the same with the exception of the recent implementation of member self-service platforms which allows members to access an online portal to view and update details for their pension.

An audit of Tayside Pension Fund (TPF) Pension Administration is included in the 2023/24 Internal Audit Plan approved by the Pension Sub-Committee.

Audit Objective

Effective Scheme Administration is essential to providing a good quality member experience and to discharge the responsibilities of the scheme manager and pensions board in paying benefits to members. Key objectives that support this experience include the payment of complete and accurate benefits to each member, including in cases of contributions efunds, deaths and payments or retirement benefits. These should all be processed in accordance with the Trust Deed and Rules, and in line with service level agreement deadlines.

Scope

Design effectiveness

Through a series of walkthroughs, we will review the design effectiveness of the processes and controls in place as detailed in the table below.

Operating effectiveness testing

We will test the quality and appropriateness of the key oversight and monitoring controls identified during our design effectiveness walkthroughs on a sample basis to ensure that the controls are operating as designed. We will utilise the information gathered during our design effectiveness walkthroughs to develop a testing approach that will focus on areas of risk.

Our scope will consist of the following:

Appendix B: Terms of reference

Sub-process	Objectives	Risks
Refund of Contributions	• TPF has controls in place to ensure the accuracy of contribution refund calculations, including calculation of any applicable deductions. • The refund process is clearly documented in adequate policies and procedures. • Controls are in place to ensure refunds are approved and authorised by an appropriate officer. • Adequate segregation of duties across the refund processes are in place. • Controls are in place to process contributions refunds in a timely manner to avoid unnecessary delays to members.	• Incorrect calculation of refund amounts leading to negative financial impacts and inaccurate member benefits. • Inadequate controls increasing the risk of fraudulent activity, such as unauthorised refunds. • Delays in the refund process can lead to regulatory breaches or member dissatisfaction and reputational impacts.
Deaths	• Effective controls are in place to ensure prompt notification, identification and recording of member deaths. • Procedures are in place to verify the accuracy of death information, including obtaining official documents. • Deaths are processed in a timely manner to prevent overpayments of benefits. • Performance metrics are in place to monitor the quality and timeliness of deaths processing. • Training is in place to ensure that administrators processing deaths and senior administrators checking cases are competent to perform their roles.	• Inaccurate or delayed notification and processing of member deaths can lead to errors in benefit payments. • Inefficient processes or insufficiently trained staff may result in delays to processing death benefits.
Payment of Retirement Benefits	• TPF has controls in place to ensure that retirement benefit calculations are reviewed by an appropriate officer who has the required training and experience to perform their role. • Quality assurance programme is in place to ensure that calculation processes and controls are reviewed and monitored, as well as the timeliness of the processing of retirement payments. • Approval controls are in place to ensure all transactions are authorised by a senior member of staff.	• Inadequate controls in place to ensure that benefit calculations performed are accurate and member cases are completed and paid to members in a timely basis. • Quality of administration of payment of benefits is not monitored leading to poor administration performance.

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

Thank you

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190219-133533-JS-OS

Internal audit report 2023/2024

Liquidity

Tayside Pension Fund ('TPF')
Final
February 2024

Contents

Distribution list

For action:
Stuart Norrie, Senior Banking & Investment Officer (Corporate Finance)

Executive summary

Report classification

Satisfactory

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	-	-	3	-
Operating effectiveness	-	-	-	-	-
Total	-	-	**-**	**3**	-

Background

A fundamental requirement of a pension scheme is that it is has sufficient assets available to pay benefits as and when they become due. In order to achieve this, pension schemes need to ensure that they have sufficient liquidity available to meet the benefit demands, through direct holdings in cash and cash-like assets, having assets that can be easily and quickly sold and through receipts from the investments that they hold. It is also important to ensure that the right balance is struck such that the investments are not overly cautious as to impact on the return.

While making regular pension payments can be relatively predictable, pension schemes will have other requirements for cash which can be volatile and lumpy in nature such as to:

- Satisfying member optionality around transfers out and cash at retirement.
- Support any collateral requirements from any of the scheme's assets (e.g. swaps).

Liquidity Management can therefore be complex and requires a strong understanding of what the uncertain and certain payments in and out of a pension scheme could be and how cash could be made available in times of stress.

As an example, following an extended period of historically low interest rates and high levels of outturn inflation driven by exiting the pandemic and the Ukraine conflict, over the course of 2022 we saw the Bank of England steadily increase the base rate which consequently lead to increases in the rate of interest for Government debt. During September 2022, a mini-budget announced by the Government included a wide range of tax cuts and spending promises, which impacted the confidence in the UK government's ability to pay its debts leading to rising interest rates over a very short time scale. The pace and magnitude of the rate rises, together with the rises that had occurred over the year, caused a 'doom-spiral' effect in yields leading to crisis in LDI positions. A number of schemes did not have sufficient cash set aside and appropriate liquidity mechanisms in place to meet the associated collateral demands, leading to a loss of their interest rate and inflation hedging.

While this did not directly impact Tayside Pension Fund ('TPF'), it demonstrates the potential market volatility that funds should prepare for. It has led to liquidity management and its associated governance becoming a key focus for many pension scheme trustees and managers.

Executive summary cont.

Scope

As part of the audit, we reviewed the design and operating effectiveness of key controls in place relating to TPF's cash flow requirements in both the short and long term, including:

- Determining cash flow requirements;
- Governance of liquidity risks;
- Cash flow forecasting model data and inputs; and
- Cash flow forecasting model output and integrity.

Limited operational effectiveness testing was performed for the short term daily cash flow requirements due to the absence of formal documentation of the daily process. Refer to the Findings 2 and 3 for further details.

Summary

The overall rating of this report is 'Satisfactory with Exceptions' driven by three Low-rated findings. These are summarised in the table below. Full details, alongside agreed actions from Management are within the following sections of the report.

The following areas of good practice were identified:

- TPF has a clearly defined Investment Strategy Statement which details the long-term and short-term strategic asset allocations and cash flow requirements.
- There is adequate oversight of portfolio Management, including appropriate monitoring and reporting with fund managers.
- The Liquidity Management team is informed and knowledgeable over the Management of the fund.
- The responsibilities of investment managers is appropriately defined.

Executive summary cont.

The table below outlines where we have observed good practice and areas of improvement across the scope objectives of this review:

Sub-process	Scope objectives	Summary of findings
Determining cash flow requirements	• There is a defined document that clarifies Management's investment strategy and how Management determine the cash flow requirements in the short and long term. • Evidence that those making decisions receive adequate training on the cash flow models. • Appropriate timely reviews of the in place strategies. • Consideration of all the areas which feed into the decision making process. • A clear distinction between the short and long term strategy. • Demonstrable process in place to ensure that failure to pay benefits is minimised. • Short term: A governance procedure in place over: data and spreadsheets which feed into the models, and management of monthly pension payrolls. • Long term: Clear responsibilities in development of the upcoming models and annual long term forecasting.	**Finding 1 (Low) - Tolerances and stress analysis built into cash flow forecasting:** From walkthroughs with the Liquidity Management team and review of documentation received, the daily short term cash flow model produced by TPF is based on historical data and there are limited assumptions or tolerances built into the forecasts which allow for uncertainties or unexpected events. TPF rely on assuming that the parameters in the cash flow model from the previous 12 months will be the same as the next 12 months, increasing the risk that models are not an accurate forecast for the current period. TPF also do not perform scenario analysis on their long term cash flow models. There are no scenario analysis tolerances built into the model assumptions or performed on the models, and the cash flow inflows for the long term forecasts are assumed to be consistent with previous years historical data with no consideration or adjustment, such as for any stress events.
Governance of Liquidity risks	• There is a defined document that clarifies Management's investment strategy and how Management determine the cash flow requirements in the short and long term. • Appropriate timely reviews of the strategies in place. • There are policies and procedures in place, including treasury management policies and investment strategies, which adequately define and consider the key liquidity risks. • The delegated responsibilities of the investment managers and relevant counterparties have been clearly defined. • There is adequate oversight of portfolio management, including appropriate monitoring and reporting with fund managers.	**Finding 3 (Low) - Documentation of policy, procedures, roles and responsibilities:** While a suite of policy and strategy document exists at TPF, there is limited supporting procedures to support these documents and provide guidance over any of the regular cash flow activities. The knowledge to manage TPF's liquidity is concentrated within the Liquidity Management team and is not documented, creating a significant key person dependency within the team of five. In addition to this, the roles and responsibilities of the Liquidity Management team are not outlined within any of the documentation available. As such it is not apparent who is responsible for cash flow activities for both short term and long term considerations, nor is it clear where the remit of Liquidity Management falls within the team.

Executive summary cont.

Sub-process	Scope objectives	Summary of findings
Cash flow forecasting model data and inputs	• Testing has been performed to make sure that the data inputs are received correctly and timely. Consideration has been given around whether alternative inputs could be used which are more relevant to the calculations. • Internal models which are used have been tested and that they all link together and consider the key areas which affect cash flow requirements • Regular exercises and reviews are conducted to verify the appropriateness of the data and inputs.	**Finding 2 (Low) - Model review processes (leading to key person dependency and deficiencies in model governance):** Walkthroughs of both short term and long term cash flow activities demonstrated that management could not consistently provide evidence of their review, nor are the review processes defined and documented. This creates a key person dependency and reduces the reliability of the review process. There is also no real-time version control maintained for any of the spreadsheets, limiting the accountability for updates within the spreadsheets as changes are not tracked. Management noted that version control is being implemented in Q2 2024 with the movement over to Sharepoint from Citrix. **Finding 1 (Low) - Tolerances and stress analysis built into cash flow forecasting:** This observation (as described above) also impacts TPF's ability to manage cash flow forecasting model data and inputs.
Cash flow forecasting model output and integrity	• Testing that appropriate validation checks exist on the results of the model.	

Current year findings

1 Lack of tolerances and stress analysis built into cash flow forecasting

Control Design

Finding rating

Impact	4
Likelihood	ii
Rating	Low

Finding and root cause

TPF performs cash flow forecasting on a daily basis for short term forecasts and on an annual basis for long term forecasts. These forecasts are used to ensure there are sufficient funds to pay benefits and other scheme payments when they fall due over both a short and long term period.

Short term cash flow model (12 month horizon):
The daily short term cash flow model produced by TPF is based on historical data and there are no assumptions or tolerances built into the forecasts which allow for uncertainties or unexpected events. TPF rely on assuming that the parameters in the cash flow model from the previous 12 months will be the same as the next 12 months, increasing the risk that models are not an accurate forecast for the current period. For example, we would expect to see the following scenarios considered:

- Scenarios which would cause spikes in one-off payments, such as transfers and increases in deaths; and
- Uncontrollable events such as a large number of employers leaving at once.

Long term cash flow model (up to 10 years):
TPF has a long term cash flow model in place which is updated and reviewed annually. Internal Audit noted that the cash flow model could be further enhanced to be more in line with good practice in the following areas:

- Implementing stress analysis tolerances into the model assumptions or performing them on the model, as current cash inflows used in long term forecasts are assumed to be consistent with previous years historic data with no consideration or adjustment for any stress events;
- Considerations for economic fluctuations such as inflation and interest rates; and
- Considerations for the change in member demographic over time.

Note: Internal Audit acknowledge that this was the first year TPF implemented the long term model. It was published in June 2023 and management noted that it is still being developed year on year.

Current year findings

1 Lack of tolerances and stress analysis built into cash flow forecasting

Control Design

Finding rating

Impact	4
Likelihood	ii
Rating	Low

Potential implications

A lack of scenario analysis and reliance on historical data in cash flow forecasting may lead to inaccurate cash flow predictions and potential underestimation of liquidity risks from unexpected events or overestimation leading to poorer investment performance. This may impact TPF's ability to meet liquidity obligations, putting members at financial risk and potential reputational impacts.

NOTE: A lower risk rating has been allocated to this observation at this time owing to:

- The nature of TPF's current asset allocation (with circa 80% of fund allocation being in liquids);
- The current level of cash reserves available; and
- The investment strategies focus on future investment in more liquid assets, including its current liquidity profile and investment strategy.

Notwithstanding, Management recognises that, in line with good practice, scenario analysis will enable for better long term modeling and understanding of the extent to which the fund can withstand liquidity stress.

Recommendations

1.1 Document the key assumptions and tolerance levels, and implement these into the short term cash flow forecasting models.

1.2 Implement a trend analysis approach to the cash flow model assumptions by analysing prior years' historical data to identify and track variances in the data used.

1.3 Consider relevant stress scenarios and implement scenario analysis into the long term cash flow assumptions. The scenarios considered should be clearly documented and approved by an appropriate officer. The key areas of focus for stress testing may relate to: CPI increases; increasing benefit payments and bulk transfers out / cessations when the scheme is in surplus; and economic fluctuations such as inflation and interest rates.

Management action plan

An additional resource is required to accommodate. These recommendations and resource requirement will be incorporated into a larger review.

Responsible person/title:

Stuart Norrie, Senior Banking & Investment Officer

Target date: December 2024

Current year findings

2 Model review processes (leading to key person dependency and model governance deficiencies)

Control Design

Finding rating

Impact	2
Likelihood	iv
Rating	Low

Finding and root cause

A number of checking and reconciliation controls for the short and long term cash flow activities were identified, however, TPF do not have formal documentation of the review process creating a key person dependency for preparation and review. We were also not able to consistently evidence the review processes taking place during both short and long term cash flow activities:

1) No formally documented process(es) that define the review and approval process for cash flow requirements and an inability to evidence review steps performed: Currently, there are several daily review activities performed by the Liquidity Management team but there are no formal procedures defined or documented which detail how and why the review processes are completed. As a result, there is key person dependency risk as the review steps in the process would not be able to be performed by alternative senior team members if the Senior Banking & Investment Officer is unavailable. Two examples where review is inadequately documented are:

- The 'Treasury Action', which is the key output of the daily short term cash flow model, is signed off by both the preparer (member of the Liquidity Management team) and the reviewer (senior member of the Liquidity Management team) on the spreadsheet. However, management were not able to evidence the clear step by step process that is completed as part of the review. The sign-off process does not provide an adequate audit trail of the checks performed and the checks that are required to be performed are not formally documented.
- To verify that contributions are being received correctly and timely, TPF maintain a contributions tracker which was set up by IT and is updated on a daily basis by the Liquidity Management team. The Senior Banking & Investment Officer visually inspects the contributions tracker to check the accuracy of the spreadsheet before posting it to the General Ledger ('GL') every month, but this does not include a clear audit trail and evidence of the checks performed. To post the tracker to the GL, the Senior Banking & Investment Officer will PDF the document and email it to the corporate business support team stating that it is balanced for the month. Whilst this demonstrates formal evidence of review and provides accountability, there are no formal procedures documenting the checks that need to be performed.

We noted that management's main purpose for performing TPF's cash flow model review activities is to support the daily and long term investments decision making process. However, we were unable to evidence an active focus on identifying errors and checking the accuracy of the data as part of their review process.

2) Data inputs are entirely manual and there are no automated checks over the accuracy of inputs: Both the short term and long term cash flow models utilised by TPF rely heavily on the manual inputs by the Liquidity Management team, which increases the chances of data inputs not being complete and accurate. While there are some visual checks throughout the process, there is no audit trail of this. The introduction of automated checks will reduce the risk of error by limiting input values and, where possible, capturing data directly from the source. Examples include:

- minimum/maximum value checks for outgoing pension payments (for example ensuring that fund expenses stay within a pre-decided minimum and maximum specified range);
- magnitude tests for cell values (for example applied to various input parameters such as contribution projections to assess the reasonableness of the projected increases); or
- automated formula driven checks within cells where data is being input (for example verifying that the data entered into cells involving outflows are negative values only).

Current year findings

2

Model review processes (leading to key person dependency and model governance deficiencies)

Control Design

Finding rating

Impact	**2**
Likelihood	**iv**
Rating	**Low**

Finding and root cause

3) Cash flow models are not appropriately backed up resulting in insufficient audit trails: Cash flow requirements are carried out within singular spreadsheets that are maintained, and updated daily and annually for the short term and long term models respectively. The cash flow spreadsheets are stored on citrix servers which are updated every evening. While this provides a suitable location to maintain the spreadsheets, there are no real-time backups and clear version history. It would be prudent to move the models to a cloud-based location which allows live updates, maintains continuous version history and reduces the risk that data may be lost through spreadsheet corruption. Management confirmed that there is a plan in place, to move the cash flows to Sharepoint in Q2 2024. This will enable live updates, provide continuous back ups and provide an effective audit trail of all changes.

Potential implications

A lack of a formal and documented review process may reduce transparency across processes and produce inconcistencies and variation in how different processes or transactions are being considered.

The absence of a process for automated testing on the cash flow forecasts increases the risk that errors in the data are not identified.

The inability to see the version history in real time of the daily cash flow models for changes made throughout the day increases the risk of data changes going unnoticed and management not addressing any urgent daily changes in a timely manner.

Recommendations

2.1 Define and document the review processes and checks that are performed across both short term and long term models. When the review checks are performed they should be clearly documented to provide a clear audit trail if not already addressed by embedded automated checks.

2.2 Embed automated checks, where relevant, into the short and long term cash flow forecast model spreadsheets to test for validity of the data, including reasonableness, magnitude and completeness tests for the cell values in the spreadsheets. Review the input and/or output testing on a periodic basis to ensure it is working as intended.

2.3 Complete the transition of the cash flow models to Sharepoint, ensuring appropriate version history is maintained.

Current year findings

2

Model review processes (leading to key person dependency and model governance deficiencies)

Control Design

Management action plan

Recommendations accepted. Automated checks to cash flow management will be integrated per PwC assistance & guidance.

Responsible person/title:

Stuart Norrie, Senior Banking & Investment Officer

Target date: December 2024

Finding rating

Impact	2
Likelihood	iv
Rating	Low

Current year findings

3 Lack of formal documentation of procedures and roles and responsibilities

Control Design

Finding rating

Impact	3
Likelihood	iii
Rating	Low

Finding and root cause

Tayside Pension Fund's administering authority, Dundee City Council, maintains a suite of policy and strategy documents for TPF within their publicly available website. These provide a set of rules and principles that should be adhered to when carrying out daily treasury operations and they provide a plan for how the funds investments should be managed. To underpin these documents, there are limited supporting guidance or procedural documents which detail how Tayside staff should complete cash flow and Liquidity Management activities and there is no version control in place for some of the policy and strategy documents:

No formal documentation, including clear roles and responsibilities, of processes performed:
TPF's Liquidity Management team consists five team members which includes the Senior Banking & Investment Officer, two senior team members and two junior team members. The following processes detailed below are performed by the Liquidity Management team, however, there is no formal documentation detailing the processes performed. The roles and responsibilities of those involved in these processes are also not clearly defined. Therefore, it is not clear where the remit of the various controls and processes fall within the team.

Determining cash flow requirements:

- How both the short term and long term cash flow models should be optimally used, including the step by step process that is carried out each day, the estimation methodology used and how forecasting is completed;
- How investments should be made including the sign-off process;
- How contributions are monitored and updated within models; and
- Communication with and oversight of the custodian;

Governance of Liquidity risks:

- How fund managers should be monitored, including communication and reporting;
- The requirements of the Pensions Sub-Committee; and
- The types and location of reports that should be reviewed to provide ongoing monitoring of the fund.

Cash flow forecasting model data and inputs:

- The review and approval processes for key cash flow activities (See finding 2).

Current year findings

3 Lack of formal documentation of procedures and roles and responsibilities

Control Design

Finding rating

Impact	3
Likelihood	iii
Rating	Low

Potential implications

Without detailed procedures in place to support TPF's policy documents, a key person dependency risk is created over the individuals who are responsible for completing daily cash flow activities and maintaining adequate liquidity as there is no way to understand the process without their guidance or input. This may lead to processes being completed inconsistently, ineffectively or incorrectly, leading to operational disruption and potentially financial loss.

If roles and responsibilities are not clearly defined for the Liquidity Management team, there may be increased inefficiencies due to duplication of efforts or key controls missed across cash flow activities.

Recommendations

3.1 Produce a set of procedures that describe and explain both daily and long term cash flow Management activities that are performed. This should include clear roles and responsibilities, the review processes and frequency.

Management action plan

Documentation specific to TPF will be developed and issued.

Responsible person/title:

Stuart Norrie, Senior Banking & Investment Officer

Target date: December 2024

Appendices

Appendix A: Basis of our classifications

Individual finding ratings

Findings are assessed on their impact and likelihood based on the assessment rationale in the tables below.

Impact rating	Assessment rationale
6	A finding that could have a: • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
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4	A finding that could have a: • Major impact on operational performance; or • Major monetary or financial statement impact; or • Major breach in laws and regulations resulting in significant fines and consequences; or • Major impact on the reputation or brand of the organisation.
3	A finding that could have a: • Moderate impact on the organisation’s operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations with moderate consequences; or • Moderate impact on the reputation of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Impact rating	Assessment rationale
2	A finding that could have a: • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
1	A finding that could have a: • Insignificant impact on the organisation's operational performance; or • Insignificant monetary or financial statement impact; or • Insignificant breach in laws and regulations with little consequence; or • Insignificant impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Likelihood

Likelihood rating	Assessment rationale
vi	Has occurred or probable in the near future
v	Possible in the next 12 months
iv	Possible in the next 1-2 years
iii	Possible in the medium term (2-5 years)
ii	Possible in the long term (5-10 years)
i	Unlikely in the foreseeable future

Appendix A: Basis of our classifications

Finding rating

This grid is used to determine the overall finding rating. Issues with a low impact and likelihood rating will not be reported.

	Impact rating					
Likelihood rating	**6**	**5**	**4**	**3**	**2**	**1**
vi	Critical	Critical	High	High	Medium	Medium
v	Critical	High	High	Medium	Medium	Low
iv	High	High	Medium	Medium	Low	Low
iii	High	Medium	Medium	Low	Low	Low
ii	Medium	Medium	Low	Low	Low	Not reportable
i	Medium	Low	Low	Low	Not reportable	Not reportable

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
●	Satisfactory	6 points or less
●	Satisfactory with exceptions	7 – 15 points
●	Needs improvement	16 – 39 points
●	Unsatisfactory	40 points and over

Appendix B: Terms of reference

Scope

Cash flow management and liquidity is a key focus of Management and the Trustees. We will review the design and operating effectiveness of key controls in place relating to TPF's cash flow requirements in both the short and long term.

Our scope will consist of the following:

Sub-process	Objectives and areas of review	Risks
Determining cash flow requirements	• Evidence that those making decisions receive adequate training on the cash flow models. • There are documented and defined responsibilities for liquidity issues if they arise. • Consideration of all the areas which feed into the decision making process. • A clear distinction between the short and long term strategy. • Demonstrable process in place to ensure that failure to pay benefits is minimised. • Short term: A governance procedure in place over data and spreadsheets which feed into the models; the management of monthly pension payroll; daily cash forecasting and oversight of money received from the custodian. • Long term: Clear responsibilities in development of the upcoming models.	• Short term cash flows: Ineffective framework to determine the levels of liquid and illiquid assets resulting in members not being paid their benefits or investment performance being adversely impacted. • Long term cash flows: Failure to sufficiently consider the expected future cash flows impacting on investment performance.
Governance of Liquidity risks	• There is a defined document that clarifies Management's investment strategy and how Management determine the cash flow requirements in the short and long term. • Appropriate timely reviews of the strategies in place. • There are policies and procedures in place, including treasury management policies and investment strategies, which adequately define and consider the key liquidity risks. • The delegated responsibilities of the investment managers and relevant counterparties have been clearly defined. • There is adequate oversight of portfolio management, including appropriate monitoring and reporting with fund managers.	• Ineffective investment strategy leading to unclear investment objectives and failure to consider a long term cash flow strategy. • Failure to consider counterparty risk in relevant cash flow policies and strategies, leading to increased liquidity risk e.g. payment interruption. • Inadequate oversight of portfolio management leading to the fund's cash not being managed in line with objectives, or inability to identify poor portfolio performance.

Appendix B: Terms of reference

Sub-process	Objectives and areas of review	Risks
Cash flow forecasting model data and inputs	• Testing has been performed to make sure that the data inputs are received correctly and timely. Consideration has been given around whether alternative inputs could be used which are more relevant to the calculations. • Internal models, including short term monthly pension payrolls and long term 10 year forecasts, have been tested and that they all link together and consider the key areas which affect cash flow requirements. • Regular exercises and reviews are conducted to verify the appropriateness of the data and inputs.	• Data sources and model inputs for short and long term models are erroneous leading to incorrect investment decisions being made.
Cash flow forecasting model output and integrity	• Testing that appropriate validation checks exist on the results of the models.	• Model output is not being reviewed for reasonableness.

Appendix B: Terms of reference

Limitations of scope

As part of our review, we will not perform the following testing:

- Independently test and validate the results of the cash flow models – our review instead focuses on how the data is used and how output influences the decision making process.
- Suggest any strategic changes based on our understanding of investment markets.
- Undertake a detailed review of how the long term cash flow requirements are determined.
- Review of the governance process for determining long term cash flows.

Any observations we may report are limited to those identified through the course of our work and are not intended to represent an exhaustive list of all potential issues or considerations. Our work is not designed to ensure compliance with all laws and regulations. Fraud, error, or non compliance with laws and regulations may occur and not be detected. Furthermore, the scope of our work does not constitute assurance over compliance with any laws and regulations.

Audit approach

Our audit approach is as follows:

Determining cash flow requirements

- Review of the governance process for determining short term cash flows.
- Review of the relevant policies, procedures, controls and documentation, through discussions with key personnel.
- Review of the relevant treasury and liquidity strategies in place.

Governance of liquidity risks

- Review of the relevant strategies and policies in place to determine how they address and consider the key liquidity risks.
- Review of governance processes and delegated responsibilities in place for the relevant fund managers.

Model data and inputs

- Review of the data sources used to populate models.
- Review of the process taken to derive any other inputs and consideration of whether these are the most appropriate for their purpose.
- Understanding how TPF’s use of models combine to give an output which is fit for purpose and a review of the efficiency of its approach and its robustness.

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

Thank you

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ITEM No …10………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: **TREASURY POLICY STATEMENT 2024/25**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **77-2024**

1 PURPOSE OF REPORT

This report revises the Fund's Treasury Policy Statement which is intended to govern all treasury activities carried out by Tayside Pension Fund.

2 RECOMMENDATION

The Sub-Committee is asked to approve the policies and procedures laid out in the attached "Treasury Policy Statement 2024/25", noting that the Treasury Policy Statement must be reviewed annually, and that there are no changes.

3 FINANCIAL IMPLICATIONS

None.

4 INTRODUCTION

The Pension Sub-committee of the City Governance Committee and Pension Board approved the current Treasury Policy Statement on 20 March 2023 (Report no 93-2023) which incorporated activities of Tayside Pension Fund. The statement is subject to review annually or earlier in the event of a major policy change.

5 TREASURY POLICY STATEMENT

This document sets out the policies and objectives of Tayside Pension Fund's Treasury Management activities and the practices which will be used to achieve these.
It contains -

- Treasury Management Policy Statement
- Delegations of Authority and Governance
- Creditworthiness & Permitted Counterparties
- Cash & Liquidity Management Policies
- Treasury Management Practices (Main Principles in 12 key areas)

6 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

The major issues identified relate to Risk Management and these are addressed in Treasury Management Practices.

7 CONSULTATION

The Chief Executive and the Head of Democratic and Legal Services have been consulted in the preparation of this report.

8 **BACKGROUND PAPERS**

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

Tayside Pension Fund

TREASURY POLICY
2024-2025

Executive Director of Corporate Services
Dundee City Council, Administering Authority
March 2024

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1. TREASURY MANAGEMENT POLICY STATEMENT

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 13 of its Financial Regulations. Investment policy and decisions (including those relating to Treasury Management) are delegated to the Pension Sub-Committee of the Policy and Resources Committee. The Pension Board assist the Sub-Committee with securing compliance to the regulations.

The primary objective of the Tayside Pension Fund is to provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis. There is limited discretion to vary these benefits.

Dundee City Council in its administering role, defines its treasury management activities as:

"The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

It regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.

It acknowledges that effective treasury management will provide support towards the achievement of its business and services objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable performance measurement techniques, within the context of effective risk management.

All treasury management activities must comply with the appropriate regulations, codes and guidance as stated in the Treasury Management Policy Statement of Dundee City Council.

2. DELEGATIONS OF AUTHORITY & GOVERNANCE

The scheme of delegation for treasury management of Tayside Pension Fund are in accordance with that for Dundee City Council and referred to in their Treasury Management Policy Statement

3. CREDIT WORTHINESS & PERMITTED COUNTERPARTIES

In undertaking treasury management for the Fund, the Council's investment priorities (as stated in their policy) will be security first, liquidity second and then return. The Council manage Credit Worthiness of counterparties in line with their own policy and the following are permitted Counterparties for investment transactions:

The Council will only use UK regulated institutions, with the maximum deposit will be in line with counterparty credit rating as follows:

Short Term Credit Rating**

- F1+ £10m
- F1 £5m
- AAAmf - Money Market Funds £10m
- Part-Nationalised UK Banks £5m
  (with a minimum holding of 20% as per LAS approach)

Any institution whose credit rating falls below the limits F2 will no longer be a permitted counterparty for further transactions (subject to advice from Treasury Advisor).

** Fitch Ratings Definition - Short-Term Ratings Assigned to Issuers or Obligations in Corporate, Public and Structured Finance

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation. Short-Term Ratings are assigned to obligations whose initial maturity is viewed as "short term" based on market convention. Typically, this means up to 13 months for corporate, sovereign, and structured obligations, and up to 36 months for obligations in U.S. public finance markets.

F1: Highest short-term credit quality - Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

4. CASH & LIQUIDITY POLICY

The Fund's policy is to ensure the efficient and effective management of cash resources to maximise investment income while ensuring sufficient cash on hand to meet obligations and avoid funding shortfalls.

This policy also contributes towards meeting the Fund's obligations to all relevant parties by ensuring the existence of an effective cash management system to provide for the payment and investment of cash, transmitting timely and reliable cash flow forecasts and ensuring compliance with relevant statutory and regulatory requirements.

Monies managed for Treasury purpose will be low value and short-term in nature, used to provide payment of pension benefits. Any higher balances are transferred to external pension investment managers, who invest per their individual investment mandates.

In addition to the above, as part of their remit, the Pension Fund's custodian undertakes short term cash management investment activities on behalf of the fund and operate to pre-agreed criteria within their mandate.

5. TREASURY MANAGEMENT PRACTICES

Dundee City Council in its administering role will follow the main principles as detailed in their separate policy, listed as:

- TMP 1 Risk Management
- TMP 2 Performance Measurement
- TMP 3 Decision-making and analysis
- TMP 4 Approved Instruments, Methods and Techniques
- TMP 5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements
- TMP 6 Reporting Requirements and Management Information Arrangements
- TMP 7 Budgeting, Accounting and Audit Arrangements
- TMP 8 Cash and Cash Flow Management
- TMP 9 Money Laundering
- TMP 10 Training and Qualifications
- TMP 11 Use of External Service Providers
- TMP 12 Corporate Governance

ITEM No …11………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: **TREASURY MANAGEMENT STRATEGY 2024/2025**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **78-2024**

1 PURPOSE OF REPORT

This report reviews the Treasury Management Strategy for Tayside Pension Fund.

2 RECOMMENDATIONS

The Sub-Committee is asked to approve the Treasury Management Strategy.

3 FINANCIAL IMPLICATIONS

None

4 BACKGROUND

From 1 December 2009, as a requirement of legislation in order to ensure greater transparency of Pension Fund monies, Tayside Pension Fund has operated a separate bank account from that of Dundee City Council.

Although the Pension Fund's investments are all managed externally there are frictional cash balances which are held internally. These arise from timing differences between receipt of pension contributions and payment of pensions within the month.

The previous Treasury Management Strategy for the Pension Fund (Article XI of the Minute of Meeting of the Pension Sub-Committee of Policy and Resources Committee & Pension Board of 20 March 2023, report no. 94- 2023 refers) reviews this strategy.

5 TREASURY MANAGEMENT STRATEGY 2024/2025

The Pension Fund's Treasury Management Strategy is based on cash flow management to ensure that sufficient funds are held to make all necessary payments with the primary concern of ensuring security and accessibility of cash to allow the capital to be preserved.

6 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

7 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

8 BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **08 MARCH 2024**

TREASURY MANAGEMENT STRATEGY 2024-2025

Executive Director of Corporate Services
Dundee City Council, Administering Authority
March 2024

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1. INTRODUCTION

1.1 Background

From 1 December 2009, Tayside Pension Fund has operated a separate bank account from that of Dundee City Council. This is a requirement of legislation and ensures greater transparency of Pension Fund money.

Although the Pension Fund's investments are all managed externally there are frictional cash balances which are held internally. These arise from timing differences between receipt of pension contributions and payment of pensions within the month.

Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers the following Treasury Management areas:

- investment strategy;
- investment interest risk

These elements cover requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government Investment Regulations not included in the Treasury Policy.

2. ANNUAL INVESTMENT STRATEGY

2.1 Investment strategy

In-house funds - Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations - The current forecast is for Bank of England base rate to have peaked at peaked at 5.25% in Q4 2023. Base rate forecasts for financial year ends (March) are:

2023/24	5.25%
2024/25	3.75%
2025/26	3.00%
2026/27	3.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 3 months during each financial year are as follows:

2023/24 (remainder)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 - 10	3.25%
Years 10+	3.25%

For its cash flow generated balances, the Fund will seek to utilise its money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

2.2 Investment interest risk

The Fund holds relatively low levels of cash internally which allows fund managers to actively manage the majority of cash balances. The table below details projections for investment cash balance (31 March), the average investment cash balance, investment interest along with an average interest rate.

£000s	Actual 2022/23	Outturn 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Investment cash balance (31 March)	7,670	5,000	5,000	5,000	5,000
Average investment cash balance	14,731	18,300	10,000	10,000	10,000
Investment interest	278	880	455	310	300
Average interest rate	1.89%	4.81%	4.55%	3.10%	3.00%

The above investment interest is generated from either Money Market Funds or call accounts. We are currently expecting around £880,000 of estimated income this financial year based on an average interest rate of 4.81% and an average cash balance of £18.3m.

ITEM No …12………..

REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024

REPORT ON: PENSION ADMINISTRATION STRATEGY

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 79-2024

1 PURPOSE OF REPORT

This report sets out the Fund's policy in respect of the standards required of both the Fund and the participating employers to ensure that statutory obligations are met and also to demonstrate effective and efficient service delivery. The strategy contains a variety of performance measures against which the Fund and participating employers are assessed, with performance reported to the Committee.

2 RECOMMENDATIONS

The Sub-Committee is asked to approve the strategy contained within, noting that there are no changes.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 BACKGROUND

The current Administration Strategy was approved by the Sub-Committee on 31 August 2015 (Article III of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee & Pension Board of 31 August 2015, Report No 318-2015 refers). Administration performance reporting has been reported on a quarterly basis since September 2016.

As part of an internal audit, PwC made recommendation that the Fund's Administration Strategy be reviewed on an annual basis and subject to Sub-Committee approval (Article VI of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee & Pension Board of 7 December 2020, Report No 339-2020 refers).

5 EMPLOYER CONSULTATION

Employers have been consulted in the drafting of this strategy and have also received the draft report.

6 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

There are no major issues, other than Risk Management itself, which is addressed through the register.

7 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

8 BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

Tayside
Pension Fund

PENSIONS ADMINISTRATION STRATEGY

2024-25

CONTENTS

1. Introduction

Dundee City Council administers the Local Government Pension Scheme (LGPS) on behalf of employers participating in the Scheme through the Tayside Pension Fund (the Fund).

The LGPS is a statutory scheme and its regulations are laid by the Scottish Government, the current regulations are laid in the Local Government Pension Scheme (Scotland) Regulations 2018. A copy can be viewed at https://www.scotlgpsregs.org/schemeregs/lgpsregs2018/timeline.php.

The Fund is committed to providing high quality pension service to both members and employers and particularly to ensure members receive their correct pension benefit entitlement.

These aims are best achieved where the Fund and employers work in partnership and are clear about their respective roles and responsibilities. The quality of service provided to members is therefore dependent on both parties meeting high standards of accuracy and timeliness of information supplied

This document sets out the duties and statutory responsibilities of the employer (Appendix A), the Fund (Appendix B) and also specifies the level of services the parties will provide to each other (Appendices C & D) and the performance measures used to evaluate them (appendix E).

This strategy statement is an over-arching agreement between the Fund and all its employers and as such it is essential that both understand what they are required to do and communicate with each other effectively and in a timely manner. A failure to achieve this can result in:

- members suffering loss and distress
- the pensions regulatory organisations fining and publicly naming and shaming a party that is at fault
- employers' contributions being set at higher levels.

This Strategy is designed to help employers and the Fund work together to improve data quality and reduce the risk of rules breaches that could result in penalties. Its focus is on the timely flow of accurate information between employers and the Fund.

2. Pension Administration Strategy Statement

This strategy statement will be kept under review on an annual basis and revised where appropriate. The statement will be issued to all participating employers.

Strategy Principles - in agreeing this strategy, all parties commit to:

- achieving a high-quality pension service to employees
- continually developing and improving efficient working arrangements
- striving to exceed the Fund's service standards
- an annual report of performance
- keeping the pension administration strategy under review.

3. Roles and responsibilities

- Employer's duties and responsibilities listed in Appendix A
- Fund duties and responsibilities are listed in Appendix B.

4. Service standards and Performance Measures

Service standards in relation to the Employer are shown in Appendix C with performance measures being shown in Appendix E.

It is the employer's responsibility to provide correct information about their members. The Fund is not responsible for checking the accuracy of any information provided by the employer. However, the Fund will inform the employer of any differences between information provided by the employer and information already provided. Information is to be issued to the Fund using the provided secure online portal and in the agreed format.

From 1st April 2015 the Pensions Regulator became the body responsible for the oversight of effective governance, management and administration of the LGPS. The Regulator has provided that where Funds and scheme employers can be fined for non-compliance.

Service standards in relation to the Fund are shown in Appendix D with performance measures being shown in Appendix E.

The Fund aims to provide the information within the timescales shown, but amended timescales may be agreed in exceptional circumstances at the employer's request.

5. Member Data

Accurate and up-to-date data is essential to the provision of pension scheme administration. It forms the basis of statutory requirements such as annual benefit statement, pension saving statement, individual member benefit calculations as well as being vital for actuarial and accounting purposes.

Member data is considered a priority, not just by the Fund, but also by the Pensions Regulator and the Fund must submit data quality results annually.

The use of electronic submission of data in the quality of data received, however the Fund will continue to work with employers for instances or missing/mismatched data.

6. Communication

In accordance with the scheme regulations the Fund prepares, reviews and publishes a separate communication policy

7. Monitoring and Reporting

Performance and service standards will be monitored on an ongoing basis, with performance against key performance indicators reported quarterly to the Committee and Pensions Board and published on the Fund website. Annual performance will also be included in the annual report.

8. Discretions

The Funds policy on the exercise of its discretions are set out in a separate policy statement which will be reviewed, amended and published as required.

9. Improving employer performance

The Fund will assist employers in identifying and helping to improve areas of poor performance. The Fund will do this by:

- Reminding employers of the required standards and timescales
- Offering training and guidance
- Offer to meet with the employer to discuss areas of poor performance and how they may be improved.

10. Circumstances where costs maybe recovered as a result of poor performance.

The Local Government Pension Scheme (Scotland) Regulations at section 65 allows the Fund to recharge to the employer the cost of any additional resources they have needed to employ as a result of an employer's poor performance.

The Fund may make the following charges:

Failure to pay contributions by the 19th of the month following the deduction for pay.	Interest calculated in accordance with Regulation 66(4) of the LGPS (Scotland) Regulations 2018.
Failure to provide the Fund with end of year schedule by stipulated deadline or the statutory deadline (30th June). Late submission of this data creates pressure on the Fund being able to meet its statutory requirements of the provision of an annual benefit statement by 31st August, a Pension Saving Statement by 6th October, and where applicable submission of data for the actuarial valuation.	£200 for failing to meet the Fund deadline. (May) £200 for failing to meet Statutory deadline. (30th June) Where queries regarding missing or mismatched data are not remedied in agreed timescales a further charge of £1 per member per week may also be levied.
Failure to submit monthly contribution return, in and by the agreed format, by 19th of the month following deduction of contributions	£50 per occurrence

Where the Fund has determined that the above costs have become payable it will provide the scheme employer with written notice detailing the reasons and the amount due.

Appendix A – Duties and responsibilities of scheme employers

- To decide those employees eligible to become members of the Scheme.
- If eligible, a new employee must be treated as a member unless he/she elects otherwise.
- To advise employees of their rights under Auto Enrolment legislation.
- To determine a member's pay (or fees) for the purposes of pension contributions
- To supply timely and accurate information to the Fund regarding new members, leavers and changes in employment required for pension administration purposes
- To determine and advise members of their contribution rate annually on the basis of the member's rate of pensionable pay having regard to guidance issued by the Scottish Ministers, and to ensure such deductions are made from members pay.
- To decide whether members are employed in a full-time, part-time or variable time capacity. If part-time, to determine the proportion of comparable full-time hours.
- To issue a Certificate of Protection of Pension Benefits if asked to do so by scheme member within 12 months of a material reduction or restriction in the member's pay, where such reduction or restriction arose otherwise than by virtue of the member's own volition. A copy of the Certificate should be kept on file, with another issued to the member and the Fund.
- If a Certificate of Protection of Pension Benefits is issued, to keep a record of the member's pay for the period commencing 3 years before the effective date of the certificate and ending 10 years after the effective date of the certificate.
- To comply with relevant auto-enrolment legislation regarding members who have previously opted out of the Scheme, including auto-enrolling such members again as required.
- To use an independent Medical Officer qualified in Occupational Health Medicine, (who has been approved by the Fund), in determining ill-health retirement and provide the Fund with a relevant certificate where appropriate.
- To notify a member, in writing, whose rights or liabilities are affected by a 'first instance' decision made by the employer under the Regulations
- To appoint a person designated to receive appeals from employees on 'first instance decisions' under the Regulations.
- When issuing any statement issued to an employee relating to any decision made about the scheme, to include a notice drawing the employee's attention to their right of appeal under the LGPS. However, the Fund will issue, on behalf of the employer, a Statutory Notice detailing when a member joins the Fund. This Statutory Notice includes details of the employee's right of appeal against the decisions made at these times.
- To ensure that all member election to move between the main and 50:50 sections are applied and that notification is issued to the Fund.
- To determine a member's entitlement to benefit on cessation of scheme membership, employment or on a member's application for early release of benefits or flexible retirement and provide early retirement authorisation as and when appropriate.
- Where an employee opts out of the Scheme within the timescale for auto-enrolment, the employer must:
  - ensure that pension contributions deducted previously are refunded previously
  - advise the Fund via the appropriate secure online portal that the employee has opted out and should be treated as never having been a member of the Scheme
- To determine and provide final pay for the purposes of calculating benefits due from the Scheme, both in terms of a members CARE pay and also their Fulltime Equivalent (FTE).
- To collect, pay over and account for the deduction of the correct rate of pension contributions payable by both the members and the Employer.

- If notified of a member's election to pay Additional Voluntary Contributions, to deduct from the member's pay the specified amount and to pay over those amounts to the relevant AVC provider/Fund. To ensure that final payments are deducted made to the provider before a member's retirement (where possible).

- To provide prospective members with basic information about the Scheme using, by signposting them to the Fund website at www.taysidepensionfund.org.

- To ensure those not joining are fully aware of the benefits given up and that equalities principles are met.

- To maintain employment records for each scheme member for the purposes of determining membership and entitlement to pension benefits.
- To decide whether to award additional compensatory years under the Discretionary Regulations. At the request of the employer, the Fund will calculate and pay the benefits arising as a result of the employer awarding additional compensatory years along with the main scheme benefits, and the employer will reimburse the Fund for all such amounts paid. Where the Fund is not reimbursed within the agreed timescale, the payment of such additional benefits may cease until the matter is resolved to the satisfaction of the Fund.
- To provide details of officers or representatives who are to receive employer communications issued by the Fund. Details should be kept up to date as necessary.
- To provide details of senior officers or representatives authorised to sign early retirement authorisation letters/memos.
- To ensure that all relevant officers (e.g. HR/Payroll) can access the Fund's secure online portal in order to submit forms and other information
- To ensure all information is provided as required regarding members' employment, using the secure online portal. Data provided should comply with Data Protection legislation.
- To provide additional information as required for actuarial valuation, year-end exercises, data-matching or communication purposes. The specification for such exercises will be provided by the Fund and may, after consultation, be modified from time to time.

- To respond to Fund queries resulting from the annual year end routines by the date determined annually by the Fund to facilitate the preparation of annual benefit statements.

- To ensure the Fund is informed about, and Government guidance is followed in respect of, any transfer of members in respect of an outsourcing of service arrangement, and any subsequent changes to that arrangement which would impact on those members.

- To inform the Fund of any planned changes to their pension provision for employees, including whether the scheme is open to new employees, bulk transfers of employments or any redundancy exercises as soon as known.

- Annual report and account information should be provided to the Fund as soon as possible after the Employers year end.

- To maintain awareness and understanding of the Fund's Governance Policy, Actuarial Valuation Reports and Funding Strategy Statement and take part in consultations on strategic issues.

- Employers must complete and return a compliance certificate on an annual basis. This document confirms that employers understand their responsibilities and statutory obligations under the Scheme Regulations.

- To inform members awarded additional compensatory years that the payment of the award will be subject to restriction should they take up further employment with an employer participating in the LGPS.

- To pay the Fund, by lump sum and within prescribed time limits, any amounts arising as a result of the employer's decision to increase total membership and/or increase annual pension under the Regulations.

- To pay the Fund, by lump sum payment and within prescribed time limits, any strain cost arising from a decision made by the employer to award early payment of benefits.

- To pay monthly contributions due to the Fund by electronic payment method no later than the 19th of month following that in which deductions were made.

Appendix B – Duties and responsibilities of the Fund

- To maintain the Tayside Pension Fund.
- To invest pension contributions received and account for and manage the Fund's assets.
- To arrange for the triennial actuarial valuation of the Fund and send copies of the resulting report to employers by the first anniversary of the valuation date.
- To set up and maintain one or more record(s) for each member which contains all the necessary information for the production of an accurate benefit calculations.
- To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
- To notify members of decisions regarding the counting of service or additional pension.
- To calculate and pay the appropriate benefits, based on the member's record, and the termination and pay details (both CARE and FTE) provided by the employer when a member ceases pensionable employment.
- To calculate and process transfers of members' pension rights inwards and outwards.
- To supply members with a Statutory Notice on commencing membership, or on an increase in membership following a transfer of pension rights.
- To supply survivor beneficiaries with notification of their entitlements including the method of calculation.
- To appoint a suitable person for the purposes of the scheme's internal dispute resolution procedure.
- To increase pensions annually in accordance with the provisions of Pensions Increase Acts and Orders.
- To produce and issue annual benefit statements to active and deferred members, by 31st August annually.
- To produce and issue Pension Saving statements to those who have exceeded their annual allowance by 6th October annually.
- To publish and review the Fund's Governance Policy and Funding Strategy Statement and prepare annual report and accounts.
- To prepare, maintain and publish a written policy in respect of communication with employers and scheme members.
- To prepare, maintain and publish a written policy in respect of Fund Discretions under the LGPS.
- To appoint an actuary for the purposes of the triennial valuation of the Fund and to provide periodical actuarial advice when required.
- To appoint Additional Voluntary Contributions provider(s).
- To comply with any orders or instructions issued by The Pensions Regulator or the Pensions Ombudsman. Where the order or instruction requires financial compensation or a fine to be paid from the Fund, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the employer, the sum concerned shall be recharged to the employer
- To issue forms, newsletters and such other materials as are necessary in the administration of the Scheme, for members and for use by employers.
- To provide accurate, timely data to the Fund actuary for the purposes of the triennial actuarial valuation of the Fund and for employer accounting reports (e.g. FRS17) requested.
- Where appropriate, to pay benefits based on additional compensatory service awarded by an employer in accordance with the provisions of the Discretionary Regulations.
- To aid employers in regard to the pension implications of outsourcing services and to deal with any related bulk transfers of pension rights.

- To comply with HMRC reporting requirements regarding pension benefits.
- To ensure that sufficient information is issued in the form of newsletters, booklets and other materials to satisfy the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996.
- To ensure that steps are taken at all times to pay benefits to appropriate beneficiaries only and to reduce the possibility of fraud.
- To ensure compliance with Data Protection legislation including use of appropriate secure data transfer methods.

Appendix C – Service Standards (Employer)

- Employers must provide the following information in relation to scheme members.
- Information must be issued in the agreed format and submitted electronically.
- Employers must ensure that GDPR is adhered to.

Information to be supplied by the Employer	**Information Required / Action by Employers**	**Timescale**
Employee Contribution Rate	To decide and deduct the correct contributions rate, in accordance with guidance issued by the Scottish Ministers	• At commencement • Accompanying each subsequent end of year schedule, a notification of the rate applicable for the following year is required
Employer Contribution Rate	To apply changes in the Employer contribution rate as per the Fund Actuary	• At commencement of membership • Thereafter as per Rates & Adjustment Certificate of the latest Actuarial Valuation.
Monthly Contributions	Amount of contributions paid by the employee and employer and also to include the amounts paid in respect of AVC's APC's and Added Years. Payment is to be made via BACs and in the format agreed between the employer and the Fund.	• No later than the 19th of the month after deductions have been made. • Electronic submission of data required.
CARE (including Assumed Pensionable Pay APP) & Fulltime Equivalent Pay (FTE)	CARE, or where applicable APP and FTE pay to be notified by the employer to maintain the member's pension scheme record.	Monthly as part of the submission of monthly contributions
Additional Voluntary Contributions	Deduct contributions as per member instructions and forwarded deductions either to the Fund or the provider.	• Where monies are being paid direct to the provider – no later than the 19th of the month following that in which they were deducted. • Where the monies are being paid to the Fund these must be received prior to this date to allow for their onward transmission to the provider. • Electronic submission of data is required
Strain on the Fund Payments	Payment as agreed	On receipt of invoice or in line with agreed payment arrangement.
Compensatory Added Years	Payment to the Fund of any amounts paid on behalf of the scheme employer as awarded under the Discretionary and Injury Payments Regulations	On receipt of invoice or in line with agreed payment arrangement.

New Starts	Information required to create a new pension scheme record. This information must be supplied in the supplied format.	• Received no later than the end of the month following the date of entry. • Submissions must be made electronically.
Changes in Circumstances	Information required to maintain member pension scheme record including such changes as • Move to and from the 50:50 section of the scheme • Changes of Address • Changes of Name • Breaks in Membership (e.g. unpaid leave, trade dispute) • Changes of Hours Information to be issued to the Fund using the agreed format.	• Received no later than the end of the month following the change in circumstance. • Submissions must be made electronically.
Early Leavers under age 55 - Where the member does not have right to immediate payments of benefits. (Over 55 - please process as per Voluntary Retirement)	• Completed Cessation Form, including where appropriate earnings for previous years where the member is in receipt of a valid Certificate of Protection of Pension Benefits. • Copy of the opting out form (where applicable)	Received no later than the end of the month following the date of leaving/opting out.
Retirement Estimates (individual)	Where the member has an AVC and/or a Certificate of Protection. Otherwise estimates can be run by the member using the Member Self Service Portal. Employer to issue a completed Estimate Form, including where appropriate earnings for previous years where the member is in receipt of a valid Certificate of Protection of Pension Benefits	Requests must be received at least 3 months prior to the estimated retirement date.
Retirement Estimates (Bulk)	• Where 10 or more estimates are required by an employer this is deemed to be a bulk exercise. • Employers should contact the Fund for details of the data required and submission format. • Employers must note that for a bulk estimate the grounds for retirement, award of any Compensatory Added Years (where applicable) and date of leaving must be the same for all members.	3 months’ notice
Voluntary Retirement	• Completed Cessation Form, including where appropriate earnings for previous years where the member is in receipt of a valid Certificate of Protection of Pension Benefits • P45	At least 20 working days prior to the member’s retirement date, but no later than 5 working days from the end of the month in which the retirement occurred.

Ill Health Retirement	• Completed Cessation Form, including where appropriate earnings for previous years where the member is in receipt of a valid Certificate of Protection of Pension Benefits. • A completed Ill Health Certificate provided by the Occupation Health Practitioner must also be issued. • P45	No later than 5 working days after the members date of leaving.
Redundancy/ Business Efficiency	• Completed Cessation Form, including where appropriate earnings for previous years where the member is in receipt of a valid Certificate of Protection of Pension Benefits. • Notification of the award of any Compensatory Added Years (where applicable). • Signed authority from the employer of the redundancy/business efficiency • P45	At least 20 working days prior to the member's retirement date but no later than 5 working days from the end of the month in which the retirement occurred.
Flexible Retirement	• Completed Cessation Form, including where appropriate earnings for previous years where the member is in receipt of a valid Certificate of Protection of Pension Benefits. • Signed authority from the employer granting the flexible retirement.	At least 20 working days prior to the member's retirement date but no later than 5 working days from the end of the month in which the retirement occurred.
Death in Service	• Completed Cessation Form, including where appropriate earnings for previous years where the member is in receipt of a valid Certificate of Protection of Pension Benefits. • Copy of the Death Certificate is available. • Details of the next of kin.	No later than 10 working days following the date of death.
Queries raised in relation to the processing of a member's retirement, Death in service or Early Leaver	Queries raised will be issued in an agreed electronic format and replies from the employer must be issued electronically.	• Retirement - No later than 10 working days from the date the query is issued. • Retirement (Ill Health) – No later than 5 working days from the date the query is issued. • Death in Service -No later than 5 working days from the date the query is issued. • Early Leaver – no later than 20 working days from the date the query is issued.
Year End Data Schedules	• Electronic submission for year-end data must be completed on the supplied Fund template and in accordance with the guidance notes included. • End of Year schedules not in the correct format will be automatically returned to the employer.	All files must be accurate, complete and submitted by the deadline date advised.

Responding to Year End Data Queries	All data queries relating to missing or mismatched data will be returned to employers for review and resolution.	As the volume of queries can range between employers a banding system applies to the reply dates: • For queries which number 1 – 49 – to be returned no later than 10 working days from the date of issue • For queries which number 50 – 249 – to be returned no later than 20 working days from the date of issue • For queries which number 250 and over – to be returned within 30 working days from the date of issue But in all cases all must be returned no later than 31st July to allow time for the queries records to be update prior to the issue of the annual benefit statement.
Responding to Annual Benefit Statement Queries (Queries following the receipt of the statement by the employee)	All data queries relating to missing or mismatched data will be returned to employers for review and resolution.	Within 15 working days from the issue of the queries
Responding to Queries in relation to the issue of the issue of annual Pension Saving Statement (Annual Allowance)	All queries and or requests for additional information required to provide scheme members with their annual Pension Saving Statements	Within 10 working days from the issue of the queries.
Responding to queries in relation to the Actuarial Valuation data submission	All data queries relating to missing or mismatched data will be returned to employers for review and resolution	Within 15 working days from the issue of the queries.
Employer Structural Changes	This notification would include such events as, large changes in membership (perhaps TUPE or Fair Deal), bulk transfer of employees to another Fund, changes in corporate status, possible cessation or closure.	As soon as possible, providing all relevant details and requests for information.

Appendix D – Service Standards (Fund)

Those marked with * below are those with a statutory timescale requirement.

Fund Action	**Target**
To provide scheme membership details to new starters	Within 2 months of the date of entry *
To provide transfer credit information (estimate) (Inward transfer of previous pension rights)	Within 2 months of receipt of required information*
To provide transfer credit information (finalised) (Inward transfer of previous pension rights)	Within 2 months of receipt of information*
To provide retirement estimates (individual) -Where the member has an AVC and/or a Certificate of Protection of Pension Benefits	No more than 2 months from the date of request *
To provide retirement estimates (bulk)	Within 15 working days of receipt of all information
To provide Divorce information	Within 3 months of receipt of all information, or such shorter period is as required by the Courts. *
To issue deferred benefit information	Within 2 months of receiving leaver notification (cessation form) *
To issue transfer out information (CETV Quotes)	Within 3 months from the date of request *
To provide retirement details (retirement options paperwork and details to Retirees)	Within one month where retirement is on or after normal pension age or two months from date of retirement where retirement is before normal pension age.*
To issue finalised retirement details and payment of lump sum	As soon as practicable on receipt of all essential member documents.
Calculate and notify dependent(s) or amount of death benefits	No more than 2 months from the date of becoming aware of death *
To provide annual benefit statements to active and deferred members	By 31st August *
To provide Pension Saving Statements to those who have exceeded the Annual Allowance	By 6th October *
To issue formal valuation results including Rates & Adjustment Certificate	As soon as practical following the receipt from the Fund Actuary
To publish forms required by scheme members and scheme employers	Within 30 days from any revisions
To provide Employer Briefings	As and when required
To provide Technical Bulletins	As and when required
To host meetings with scheme employers	Annually
To arrange training for employers	Upon request
To provide notice to scheme member and employers of changes to the scheme regulations	As and when required
To prove notice to scheme employers of any additional costs (including any interest due) arising from performance	As and when required

Appendix E - Performance Measures		
Scheme Employer		
Task	**Target**	**% in target**
New Starters	Received no later than the end of the month following the date of entry	
Retirement	Received at least 20 working days prior to the member's retirement date, but no later than 5 working days from the end of the month in which the retirement occurred.	
Ill Health Retirement	Received at least no later than 5 days following the date of leaving	
Early Leavers	Received no later than the end of the month following the date of leaving/opting out	
Death in Service Notification	Received no later than 5 working days from date of death.	
Payment of monthly Contributions – No later than the 19^{th} of the month following the deductions of contributions	Received no later than the 19^{th} of the month following the deductions of contributions	
Submission of monthly contributions returns via secure on-line portal	Received no later than the 19^{th} of the month following deduction.	
Fund		
Task	**Target**	**% in target**
New Starters	Within 20 working days from the receipt of the information, but no later than 2 months from the member's date of entry *	
Early Leavers (deferred benefits)	Within 2 months of receiving leaver notification (cessation form)*	
Payment of Retirement Benefits (lump sum)	As soon as practicable on receipt of all essential member documents, but no later than 20 working days from receipt of all essential documents.	
Dependent(s) notification of benefits	No more than 2 months from the date of becoming aware of death *	
Issue Transfer Out – CETV Quotes	Within 3 months from the date of request *	
Issue Transfer Out – CETV Actual	Within 1 month from the receipt of all required information and compliance checks being made	
To provide retirement estimates (individual) -Where the member has an AVC and/or a Certificate of Protection of Pension Benefits	No more than 2 months from the date of request *	
To provide retirement estimates (bulk)	Within 15 working days of receipt of all information	
To provide Divorce information	Within 3 months of receipt of all information, or such shorter period is as required by the Courts. *	
Annual Benefit Statements - Active and deferred Members	No later than 31^{st} August *	
Annual Pension Increase notifications	No later than 30^{th} April *	
Annual Pension Saving Statements (for those who have exceed the annual allowance)	No later than 6^{th} October *	

ITEM No …13………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: **TAYSIDE PENSION FUND COMMUNICATION POLICY**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **80-2024**

1 PURPOSE OF REPORT

To present a communications policy as required by the Local Government Pension Scheme (Scotland) Regulations 2014.

2 RECOMMENDATIONS

The Committee is asked to approve the revised Communications Policy which has been reviewed in conjunction with the Fund's Administration Strategy, noting the increase of de-minimis value of change of monthly pension benefit of over £10, where a pension member would be issued with an additional payslip. This change is in line with other Scottish LGPS Funds.

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3 BACKGROUND

The Local Government Pension Scheme (Scotland) Regulations 2014 requires that a Fund have a Communications Policy.

Regulation 59 states that an administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with members and their representatives; prospective members; and scheme employers. The statement must set out its policy on the following, and must be revised and published following any material changes:

- the provision of information and publicity about the Scheme to members, representatives of members, and Scheme employers;
- the format, frequency and method of distributing such information or publicity;
- the promotion of the Scheme to prospective members and their employers.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

5 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

6 BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

COMMUNICATIONS POLICY

MARCH 2024

1. Introduction

Tayside Pension Fund is administered by Dundee City Council, with pension administration and investment services for 42 local government employers and associated bodies and their employees within the Tayside Area.

2. Vision

Our vision is that anyone with an interest in the pension fund should have ready access to all the information they require, and in this, we aim to make pensions issues understandable to all and to promote the membership of the Tayside Pension Fund.

3. Objectives & Aims

Our goal is to provide an efficient, affordable and attractive pension arrangement that is regarded by employers and members as an important and valued part of the employment package. The objectives of this policy are as follows:

- To improve understanding of the pension fund, ensuring that pension regulations and policies are communicated in a clear and informative way.
- To promote the benefits of the scheme, to ensure recognition as an integral part of employee remuneration.
- To provide clear information in the most appropriate manner to allow members to make more informed decisions relating to their pensions.
- To ensure that our communications methods and manners are continually evaluated, assessed and redesigned to ensure continuing effectiveness.

Our aim is that our communications shall:

- be timely delivered in the most efficient and effective manner
- have relevant content, clear purpose with clear message
- be monitored and measured as to level of success and satisfaction, with targets agreed in annual business plan, and results reported annually
- encourage engagement, comment and feedback
- continue using digital communication where possible

4. Stakeholders

There is a statutory requirement to communicate with all stakeholders, and we will inform all stakeholders of the Fund about the scheme in a clear, purposeful and timely manner. Our stakeholders are:

- Prospective Scheme Members
- Active Scheme Members
- Deferred Scheme Members
- Pensioner and Dependent Members
- Scheme employers
- Dundee City Council, as the Administering Authority
- The Pensions Committee
- The Pensions Board
- Pensions Team Staff
- Other external bodies such as Scottish Public Pensions Agency, the Pensions Regulator, Scheme Auditors, Scheme Advisory Board and Trade Unions.

5. Communication Methods

- **Fund Website**

  With many people working out of normal office hours and wishing convenience, we wish to make our information accessible 24 hours per day through our website. As a convenient and efficient means of communication, it will provide both public and secure areas for employers and members to access.

The website will display:

- All scheme policies
- Scheme booklets
- Contact details
- Forms for both employees and employers
- Latest news
- A link to Pensions Committee and Local Pension Board minutes
- Links to other useful sites
- Link to our Member Self Service Portal

The website address is: https://www.taysidepensionfund.org/

- **General Communications**

  Tayside Pension Fund uses e mail as preferred method to send and receive general correspondence, but if not possible please direct surface mail to our postal address below surface and e mail to send and receive general correspondence.

  - **E mail -** enquiries should be addressed directly to pensions@dundeecity.gov.uk

  - **Telephone Communications** – Our Contact Centre number is (01382) 307900. This information is also available on the website and is contained in all outgoing correspondence. Our business hours are 8.30am – 5.00pm Monday , Tuesday, Thursday and Friday, and 9.30am – 5pm on a Wednesday.

  - **Postal Address** - **Tayside Pension Fund**
Floor 4, Dundee House
50 North Lindsay Street
DUNDEE, DD1 1NZ

  - **Personal appointments -** By prior arrangement at Dundee House.

6. Communication Methods by Stakeholder (in addition to general communication requirements)

- **Active Members**

  We have over 18,900 members currently contributing to the scheme. This membership spans a wide range of ages, occupations and salaries. In order to meet their communications needs we use a mix of generic and targeted approaches as well as one-to-one meetings. The Fund also provides an online Member Self Service Portal which allows the member and Fund to communicate directly and securely, Communication issued to members include:

  - On joining the pension scheme members will be issued with a welcome pack which will include
    - Welcome Letter including details of the Fund's website: https://www.taysidepensionfund.org/
    - Member Self Service Activation Key for the online self-service portal
  - Scheme Guide – Available on the Fund website
  - Annual Benefit Statement - Personalised statement of each member's pension benefits to the 31st March and also their Normal Pension Age.
  - On request, provision of communications in alternative formats including translation, braille, large print documents or audio.
  - Links from the website to other useful sites including www.scotlgpsmember.org

- **Deferred Members**

  There are over 11,700 members not currently contributing to the scheme but whose pension we are managing until it becomes payable. These include members who have moved to a non-participating employer and others who remain with a scheme employer but have stopped contributing themselves.

  In order to meet their communications needs we use the same mix of generic and targeted approaches as that for members who are currently active in the fund. Deferred members will also have access to the online Self Service portal. Deferred members receive revised benefit statements on an annual basis.

- **Pensioners and Dependents**

  There are currently over 18,500 pensioner members (dependents). Again, their needs are met by the same approach as that for active and deferred members, but in addition they also receive annual P60 statement, and payslips for monthly pension changes of over £10 in value.

- **Representatives of Members**

  Members of Tayside Pension Fund are represented on the Pensions Board by the following trade union: GMB, Unison and Unite.

- **Prospective Members**

  We work with employers to promote the benefits of scheme membership to new employees or those employees who have previously opted out through promotional material, and access to the website.

- **Scheme Employers**

  - Website providing general fund information
  - Leaflets and forms available for download via website
  - Dedicated professional support and guidance
  - Annual Pension Fund Employer Forum
  - Pension Administration Strategy including service standards and performance measurement against these standards
  - Updates on scheme regulation changes as applicable
  - technical and procedure training on demand
  - Consultations on changes to the Scheme
  - Employee roadshows on request

- **Pension Board and Committee**

  The Fund will work closely with the members of the Pension Committee and Board to ensure that they can fulfil their duties and responsibilities, including the provision of dedicated training. Minutes of the meetings of the Committee and Board are available on the Fund and Council website.

- **Pension Fund Staff**

  The Fund provides staff with relevant training in order to undertake their roles, and provides access to information in order to ensure that they have the required knowledge to ensure that they can fulfil their duties. Communication methods include process guidance notes, team meetings and both face to face and online training sessions (both internal and external).

ITEM No …14………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: **ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE POLICY**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **81-2024**

1. PURPOSE OF REPORT

This report reviews Tayside Pension Fund's Environmental, Social & Corporate Governance Policy.

2. RECOMMENDATION

The Sub-Committee is asked to approve the policy, and note that there are no changes.

3. BACKGROUND

The Fund's current policy on Socially Responsible Investing was approved on 20 March 2023 (Article XV of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 20 March 2023, Report No 97-2023 refers).

4. POLICY IMPLICATIONS

This report has been subject to an Integrated Impact Assessment to identify impacts on Equality & Diversity, Fairness & Poverty, Environment and Corporate Risk. An impact, positive or negative, on one or more of these issues was identified. An appropriate senior manager has checked and agreed with this assessment. A copy of the Integrated Impact Assessment showing the impacts and accompanying benefits of / mitigating factors for them is included as Appendix 2 to this report.

5. CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

6. BACKGROUND PAPERS

Principles for Responsible Investment: www.unpri.org.
The Scottish Local Government Pension Scheme – Scheme Advisory Board 24 June 2016 – Guidance on Fiduciary Duty:
http://www.sppa.gov.uk/Documents/Governance/Scheme%20Advisory%20Boards/Letter%20to%20Funds%20on%20Fiduciary%20Duty.pdf
Institutional Investors Group on Climate Change (IIGCC): https://www.iigcc.org/
Climate Action 100+: https://www.climateaction100.org/
Taskforce for Climate related Financial Disclosures (TCFD): https://www.fsb-tcfd.org/

ROBERT EMMOTT

EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

APPENDIX 1

Tayside
Pension Fund

POLICY ON ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

The fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

1. Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.*

2. Be an active owner and incorporate ESG issues into ownership policies and practices through the following:

   - **Voting**: Exercising voting rights globally in accordance with independent corporate governance and shareholder advisors and further engagement activity of investment managers.
   - **UK Stewardship Code**: All asset managers and investment advisors must seek to be signatories to the code and fulfil reporting requirements.
   - **Membership of Key Investor Groups**: To use collaborative powers as asset owners to support net-zero emissions transitions.

3. Seek appropriate disclosure of ESG issues by entities in which the Fund is invested through the following:

   - **Investment manager engagement**: To be monitored and reported on a bi-annual basis.
   - **Taskforce for Climate related Financial Disclosures (TCFD)**: Commitment to ensuring that appropriate governance, assessment and disclosure requirements are met in advance of statutory deadline.

4. Promote acceptance and implementation of the Principles within the investment industry - this can be met by seeking the quarterly reports from investment managers.

5. Work to enhance effectiveness in implementing the Principles - this will be both by working with its investment managers and other Pension Funds (particularly other Scottish Local Authorities).

6. Report on activities and progress towards implementing the Principles - a six monthly Report will continue to be prepared for the Sub-Committee.

7 Exercise their fiduciary duty to guard against extremes or selective interpretation of the legal principles which might unduly restrict the consideration of ESG and other wider factors which may influence the choice of investments so long as that does not risk material financial detriment to the Fund.

* In the case of the following industries:

- **Tobacco -** The Fund requires investment managers to provide the Fund with an investment case prior to undertaking new investments within this industry. These investment cases must demonstrate that there are no suitable alternatives at that time that better meet the criteria to meet their investment objectives.

- **Energy -** The Fund requires that:

    - companies held within the segregated equity mandates to have agreed a Scope 1/ Scope 2 emission reduction target by December 2022;
    - companies held within the segregated equity mandates to have a firm commitment to achieve a net zero position by 2050 by December 2024;
    - investment managers must engage with energy sector companies on these requirements, and monitor and report on progress.
    - managers will be expected to disinvest from any companies where engagement is failing to encourage progress towards targets, and reasonable progress is not being demonstrated.

Dundee City Council
www.dundeecity.gov.uk
CHANGING FOR THE FUTURE

Integrated Impact Assessment

Committee Report Number: 97-2023

Document Title: TAYSIDE PENSION FUND ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE POLICY

Document Type: Policy

Description:

Tayside Pension Fund's policy on Socially Responsible Investing

Intended Outcome:

Incorporate ESG issues into investment analysis and decision-making processes

Period Covered: 20/03/2023 to 25/03/2024

Monitoring:

Biannual Socially Responsible Investment reporting, and separate climate focus reporting

Lead Author:

Tracey Russell, Service Manager Financial Services, Corporate Services,

tracey.russell@dundeecity.gov.uk , 01382 431333,

Dundee House, 50 North Lindsay Street,, Dundee,

Director Responsible:

Robert Emmott, Exec Director Corporate Services, Corporate Services

robert.emmott@dundeecity.gov.uk, 01382 434000

Dundee House, 50 North Lindsay Street,

Equality, Diversity and Human Rights

Impacts & Implications

Age: No Impact

Disability: No Impact

Gender Reassignment: No Impact

Marriage & Civil Partnership: No Impact

Pregenancy & Maternity: No Impact

Race / Ethnicity: No Impact

Religion or Belief: No Impact

Sex: No Impact

Sexual Orientation: No Impact

Are any Human Rights not covered by the Equalities questions above impacted by this report?

No

Fairness & Poverty

Geographic Impacts & Implications

Strathmartine:	No Impact
Lochee:	No Impact
Coldside:	No Impact
Maryfield:	No Impact
North East:	No Impact
East End:	No Impact
The Ferry:	No Impact
West End:	No Impact

Household Group Impacts and Implications

Looked After Children & Care Leavers: No Impact

Carers: No Impact

Lone Parent Families: No Impact

Household Group Impacts and Implications

Single Female Households with Children: No Impact

Greater number of children and/or young children: No Impact

Pensioners - single / couple: No Impact

Unskilled workers or unemployed: No Impact

Serious & enduring mental health problems: No Impact

Homeless: No Impact

Drug and/or alcohol problems: No Impact

Offenders & Ex-offenders: No Impact

Socio Economic Disadvantage Impacts & Implications

Employment Status: No Impact

Education & Skills: No Impact

Income: No Impact

Caring Responsibilities (including Childcare): No Impact

Affordability and accessibility of services: No Impact

Fuel Poverty: No Impact

Cost of Living / Poverty Premium: No Impact

Connectivity / Internet Access: No Impact

Income / Benefit Advice / Income MaximisationNo Impact

Employment Opportunities: No Impact

Education: No Impact

Health: No Impact

Life Expectancy: No Impact

Mental Health: No Impact

Overweight / Obesity: No Impact

Child Health: No Impact

Neighbourhood Satisfaction: No Impact

Transport: No Impact

Environment

Climate Change Impacts

Mitigating Greenhouse Gases: Positive

Positive effect in integrating climate considerations into investment decision making

Adapting to the effects of climate change: Positive

Positive effect in integrating climate considerations into investment decision making

Resource Use Impacts

Energy efficiency & consumption: No Impact

Prevention, reduction, re-use, recovery or recycling of waste: No Impact

Sustainable Procurement: No Impact

Transport Impacts

Accessible transport provision: No Impact

Sustainable modes of transport: No Impact

Natural Environment Impacts

Air, land & water quality: Positive

Positive effect in integrating climate considerations into investment decision making

Biodiversity: Positive

Positive effect in integrating climate considerations into investment decision making

Open & green spaces: No Impact

Built Environment Impacts

Built Heritage: No Impact

Housing: No Impact

Is the proposal subject to a Strategic Environmental Assessment (SEA)?	No further action is required as it does not qualify as a Plan, Programme or Strategy as defined by the Environment Assessment (Scotland) Act 2005.

Corporate Risk

Corporate Risk Impacts

Political Reputational Risk: Positive

Positive effect in integrating climate considerations into investment decision making

Economic/Financial Sustainability / Security & Equipment: No Impact

Social Impact / Safety of Staff & Clients: No Impact

Technological / Business or Service Interruption: No Impact

Environmental: Positive

Positive effect in integrating climate considerations into investment decision making

Legal / Statutory Obligations: Positive

Contributing to achieving net zero

Organisational / Staffing & Competence: No Impact

Corporate Risk Implications & Mitigation:

The risk implications associated with the subject matter of this report are "business as normal" risks and any increase to the level of risk to the Council is minimal. This is due either to the risk being inherently low or as a result of the risk being transferred in full or in part to another party on a fair and equitable basis. The subject matter is routine and has happened many times before without significant impact.

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ITEM No …15………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: **TAYSIDE PENSION FUND ACTUARIAL VALUATION AT 31 MARCH 2023**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **82-2024**

1 PURPOSE OF REPORT

This report updates the Sub-Committee on the Actuarial Valuation of Tayside Pension Fund at 31 March 2023.

2 RECOMMENDATION

Members are asked to note the information contained within this report and approve the actuarial recommendations contained in Appendix A.

3 FINANCIAL IMPLICATIONS

The purpose of the three yearly actuarial valuation is to ensure that the Pension Fund has sufficient resources to provide for their members' pensions and lump sum benefits. The contribution from employees is fixed by statute and the only adjustable variable at each valuation is the level of employer's contributions.

The outcome of the 2023 actuarial valuation is that the employer's contributions for financial years 2024/25, 2025/26 and 2026/27 will reduce from 17.0% to 15.7%, with exception of Travel Dundee where a fixed 40% employer contribution is applicable, and employers who choose to close the Fund to new members, where individual contribution rates will apply.

4 INTRODUCTION

An actuarial valuation is required every three years in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014. Appendix A provides the full report of the actuarial valuation of Tayside Pension Fund undertaken as at 31 March 2023.

The main purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2024 to 31 March 2027. Regulation 60 specifies four requirements that the actuary "must have regard to" and are detailed below:

- the desirability of maintaining as nearly constant a primary rate as possible;
- the current version of the administering authority's funding strategy statement;
- the requirement to secure the solvency of the pension fund; and
- the long-term cost efficiency of the Scheme (i.e. the LGPS for Scotland as a whole), so far as relating to the pension fund.

5 VALUATION PROCESS

The primary objective of the Fund is to provide for member's pension and lump sum benefits on their retirement or for their dependants on death before or after retirement.

Contributions are paid by the employees and employers into the Fund. The employees' contributions are fixed by statute. 1st April 2009 introduced the application of tiered banded contributions at various rates from 5.5% to 12%. The actuarial valuation determines the contributions payable by the employers.

The actuary values the assets and liabilities of the Fund to calculate whether the Fund has a surplus or a deficit. The level of the surplus or deficit determines how much the employer's contribution should be set at to balance the Funds position.

6 VALUATION OF ASSETS

To determine the value of assets, the actuary makes various assumptions about the level of returns that are going to be achieved by the Fund. The assumptions at 31 March 2023 in relation to the previous valuation are as follows:

	2023 Valuation		2020 Valuation	
Asset Class	Nominal Return % p.a.	Real Return (relative to CPI) % p.a.	Nominal Return % p.a.	Real Return (relative to CPI) % p.a.
Equities	6.5	3.8	6.40	4.00
Gilts	4.2	1.5	0.90	-1.50
Bonds	5.0	2.3	1.90	-0.50
Property	6.1	3.4	5.90	3.50

Additionally, an assumption is made of the level of additional contribution the Fund will receive due to increases in pay. The assumptions for pay increases at 31 March 2023 are as follows:

	2023 Valuation		2020 Valuation	
	Nominal Return % p.a.	Real Return (relative to CPI) % p.a.	Nominal Return % p.a.	Real Return (relative to CPI) % p.a.
Pay increases	3.7	1.00	3.40	1.00

7 VALUATIONS OF LIABILITIES

The valuation of the liabilities is made using assumptions on pension increases. The assumption at 31 March 2023 for pension increases is 2.7% per annum (2.4% at previous valuation). The cost of providing for benefits depends not only upon the amount but also the incidence of benefits paid i.e. at what point in the future benefits begin to be paid and how long they continue to be paid. The actuary uses statistical assumptions on the incidence of retirement, and mortality to calculate the incidence of benefits paid.

8 INTERVALUATION EXPERIENCE

The actual experience of the Tayside Pension Fund since the last valuation at 31 March 2020 also has an impact on the valuation. Overall the experience of the Fund compared to the assumptions adopted at the previous valuation has been positive overall with greater than expected investment returns which have had a positive impact, as have reduced improvements on mortality.

9 TAYSIDE PENSION FUND - VALUATION RESULTS AT 31 MARCH 2023

At 31 March 2023, Tayside Pension Fund had a surplus of assets over liabilities of £410m (£289m at previous valuation). This is translated into a funding level of 110% (including a 10% volatility reserve to allow for adverse short-term financial experience in the period to the next valuation).

Based on the above results the actuary recommends that the Fund's employer's common contribution rate reduces to 15.7% p.a. of pensionable pay (17% at previous valuation) utilising the surplus to maintain a stable contribution rate via a negative secondary rate adjustment from the primary rate of 22.5% (22.9% at previous valuation).

11 **POST 31 MARCH 2023 EXPERIENCE**

Since the valuation date the funding position continues to improve, although the period has seen significant volatility in financial markets, and this is anticipated to continue throughout the inter-valuation period.

12 **POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of sustainability, strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

13 **CONSULTATIONS**

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

14 **BACKGROUND PAPERS**

Barnett Waddingham - Tayside Pension Fund Actuarial Valuation (draft) as at 31 March 2023.

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **08 March 2024**

VALUATION REPORT

Tayside Pension Fund

Actuarial valuation as at 31 March 2023

Graeme D Muir FFA

Hagen Eichel FFA

Barnett Waddingham LLP

8 March 2024

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Contents

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Executive summary

Some of the key results contained within this report are set out below:

1. Funding position

Using the agreed assumptions, the Fund had assets sufficient to cover 110% of the accrued liabilities as at 31 March 2023, a slight increase from 109% at the 2020 valuation.

2. Contributions

Individual employer contributions are set out in Appendix 5 in the Rates and Adjustments Certificate to cover the period from 1 April 2024 to 31 March 2027. The existing surplus is amortised over a period of 12 years from 1 April 2024 for open employers.

3. Method and assumptions

The resulting method and assumptions are set out in Appendix 2 and we believe they are appropriate for the 31 March 2023 valuation. The key assumptions used are a discount rate assumption of 4.3% p.a. and a CPI inflation assumption of 2.7% p.a. We have maintained the same 10% volatility reserve in the value of assets as used at the last valuation.

4. Investment performance

Investment returns have been strong since the previous valuation, but resulting gains in the funding position have been partially offset by a reduction in future anticipated investment returns net of inflation (i.e. a reduction in the real discount rate) and higher than expected pension increases awarded during the intervaluation period.

5. Regulatory changes

There have been a number of important regulatory changes since the 2020 valuation including cost management and climate risk.

Details of how we have approached each change is detailed in this report.

Background

We have been asked by Dundee City Council, the administering authority for the Tayside Pension Fund (the Fund), to carry out an actuarial valuation of the Fund as at 31 March 2023. The Fund is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 2018 (the Regulations) as amended.

The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2024 to 31 March 2027 as required under Regulation 60 of the Regulations.

This report summarises the results of the valuation and is addressed to the administering authority of the Fund. It is not intended to assist any user other than the administering authority in making decisions or for any other purpose and neither we nor Barnett Waddingham LLP accept liability to third parties in relation to this advice.

This report is provided further to earlier advice dated 20 November 2023 which set out the background to the valuation and explained the underlying methods and assumptions derivation.

This advice complies with Technical Actuarial Standards (TASs) issued by the Financial Reporting Council – in particular Technical Actuarial Standard 100: General Actuarial Standards (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300).

We would be pleased to discuss any aspect of this report in more detail.

Valuation methodology

Setting contributions

The contribution rates consist of two elements, the primary rate and the secondary rate:

- The **primary rate** for each employer is the employer's future service contribution rate (i.e. the rate required to meet the cost of future accrual of benefits net of member contributions) expressed as a percentage of pay.
- The **secondary rate** is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). The secondary rate may be expressed as a percentage of pay or as a monetary amount.

Regulation 60 specifies 4 requirements that the actuary "must have regard" to:

1. The existing and prospective liabilities arising from circumstances common to all those bodies
2. The desirability of maintaining as nearly a constant a primary rate as possible
3. The current version of the administering authority's Funding Strategy Statement (FSS)
4. The requirement to secure the "solvency" of the pension fund and the "long-term cost efficiency" of the Scheme, so far as relating to the pension fund.

The wording of the second objective is not ideal in that it appears to be aimed towards the primary rate rather than taking into account the surplus or deficit of the employer. We believe that if we achieve reasonably stable total individual employer rates (which seems like a preferable objective) then we will also meet the regulatory aim.

CIPFA's FSS guidance includes further details, summarised as follows:

- **"solvency"** means ensuring that employers are paying in contributions that cover the cost of benefit accrual and target a fully funded position over an appropriate time period using appropriate actuarial assumptions, and
- **"long-term cost efficiency"** means that employers have the financial capacity to increase contributions (or there is an alternative plan in place) should contributions need to be increased in future.

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Assumptions used

We have considered these four requirements when providing our advice and choosing the method and assumptions used.

A number of reports and discussions have taken place with the administering authority and, where required, its investment advisors before agreeing the assumptions to calculate the results and set contribution rates. In particular:

- The initial results dated 20 November 2023 provides information and results on a whole fund basis as well as background to the method and derivation of the assumptions.
- The follow up report dated 12 December 2023 confirming the agreed actuarial assumptions.
- The climate analysis report which will be issued shortly considers climate risk in the context of the Fund's 2023 actuarial valuation. It considers whether the 2023 valuation funding strategy is sufficiently robust in the context of this climate scenario analysis and any potential contribution impacts.
- The FSS which will confirm the approach in setting employer contributions.

Note that not all of these documents may be in the public domain and may be restricted to the administering authority which has no obligation to share them with any third parties.

The assumptions detailed in this report have been agreed with the administering authority. The Fund's FSS has been reviewed in collaboration with the administering authority to ensure that it is consistent with this approach. The FSS complies with the latest version of CIPFA's FSS guidance but we understand that this guidance is currently under review by the Scheme Advisory Board's Compliance and Reporting Committee. This updated guidance had not come into effect as at the date of this report.

We confirm that in our opinion the agreed assumptions are appropriate for the purpose of the valuation. Assumptions in full are set out in Appendix 2.

Valuation of liabilities

To calculate the value of the liabilities, we estimate the future cashflows which will be made to and from the Fund throughout the future lifetime of existing active members, deferred benefit members, pensioners and their dependants. We then discount these projected cashflows using the discount rate which is essentially a calculation of the amount of money which, if invested now, would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called the present value (or, more simply, the value) of members' benefits. Separate calculations are made in respect of benefits arising in relation to membership before the valuation date (past service) and for membership after the valuation date (future service).

To produce the future cashflows or liabilities and their present value we need to formulate assumptions about the factors affecting the Fund's future finances such as inflation, salary increases, investment returns, rates of mortality and staff turnover etc.

The assumptions used in projecting the future cashflows in respect of both past service and future service are summarised in Appendix 2.

Valuation of assets

We have been provided with audited Fund accounts for each of the three years to 31 March 2023.

The market asset valuation as at 31 March 2023 was £4.83bn. Please note that this excludes members' additional voluntary contributions (AVCs).

For the purposes of the valuation, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2023 to 30 June 2023. Therefore, we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets. The smoothed assets also include a 10% volatility reserve deduction which may be used in the instance of future adverse experience to help achieve stability in funding.

The smoothed asset valuation net of the volatility reserve and smoothing adjustment of 99.8% was £4.34bn. More detail can be found in Appendix 1.

The Fund's long-term investment strategy has been taken into consideration in the derivation of the discount rate assumption. The investment strategy is set out in the Fund's Investment Strategy Statement (ISS) that should be made publicly available on the Fund's website.

Previous valuation results

The previous valuation was carried out as at 31 March 2020 by Barnett Waddingham. The results are summarised in the valuation report dated 11 March 2021 and reported a surplus of £289m.

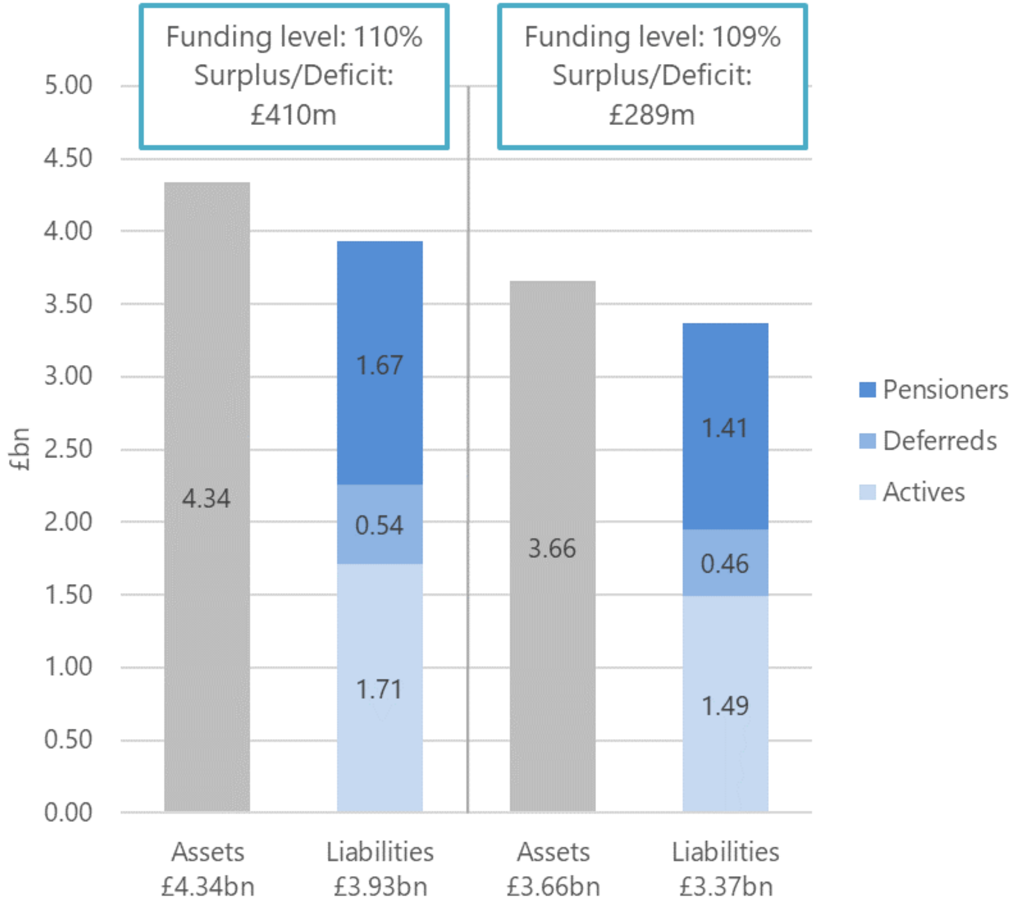
Results

Funding position

A comparison is made of the value of the existing assets with the value of the accrued liabilities. If there is an excess of assets over the liabilities then there is a surplus. If the converse applies there is a deficit.

Using the assumptions summarised in Appendix 2, the funding position is set out in the graph below. This shows the funding position of the Fund at the current and previous valuation dates.

There was a surplus of £410m in the Fund at the valuation date, corresponding to a funding level of 110%.



Contribution rates

Primary rate

Using the assumptions summarised in Appendix 2, the resulting average primary rate across the whole Fund is set out in the table below (after allowing for member contributions). This includes a comparison to the primary rate at the previous valuation.

The primary rate for the whole Fund is the weighted average (by Pensionable Pay) of the individual employers' primary rates.

Primary rate	2023 valuation of payroll p.a.	2020 valuation of payroll p.a.
Average total future service rate	28.6%	29.0%
Less average member rate	-6.1%	-6.1%
Fund primary rate	**22.5%**	**22.9%**

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the Regulations.

Please note that expenses are allowed for in the derivation of the discount rate and therefore we make no explicit allowance in the primary rate for expenses.

Secondary rate

The secondary rate is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). Where there is a deficit, contributions should be set to restore the funding positions to 100% over an agreed "recovery period". Where there is a surplus, some of the surplus may be amortised over an appropriate period to keep employer contribution rates as stable as possible.

The recovery period for individual employers varies across the Fund. The administering authority's approach to setting recovery periods is set out in the FSS. Where there is a surplus, this may also be reflected in contribution rates in line with the Fund's FSS.

The primary and secondary rate of the individual employer contributions payable are set out in the Rates and Adjustments Certificate in Appendix 5. These will differ from the average Fund primary rate set out above as well as varying from each other as they are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers.

In Appendix 5 we also disclose the sum of the secondary rates for the whole Fund for each of the three years beginning 1 April 2024. Unless an alternative arrangement has been agreed on for an employer, the aggregate secondary rate is minus 6.8% of payroll leading to a total aggregate contribution rate payable of 15.7%.

The secondary contributions agreed with the administering authority have been set at this valuation in order to restore the Fund to a funding position of 100% by no later than 2036.

Projected funding position

Based on the assumptions as set out in Appendix 2 and the contributions certified and set out in Appendix 5, we estimate that the funding position of the whole fund will decrease to 108% by 31 March 2026, the next valuation date, as some of the surplus is used up. This projection is based on the assumptions made for this valuation and contributions being the certified amounts. This projection does not allow for any actual experience since 31 March 2023 nor any other risks or uncertainties. Some of these additional risks are set out later in this report and in Appendix 3.

Standardised basis

Following the funding valuation, a “Section 13” report (prepared under Section 13 of the Public Service Pensions Act 2013) will be prepared to report on whether the following aims are achieved: compliance, consistency, solvency and long-term cost efficiency, and to identify any funds that cause concerns.

As part of our calculations we have considered the results on a standardised basis as set by the Scheme Advisory Board (SAB). We are required to provide the SAB with the results for the Fund for comparison purposes.

The standardised basis is set using assumptions advice from the Government Actuary’s Department (GAD) with some of the assumptions used being set locally (such as mortality) and some are set at Scheme level (including all the financial assumptions). It is not used to set contributions as it does not reflect the Fund’s investment strategy or the administering authority’s attitude to risk; contributions are set using the funding basis.

The results on the standardised basis as at 31 March 2023 are set out in the dashboard in Appendix 4. The dashboard should assist readers in comparing LGPS valuation reports and the information will be used by GAD in their “Section 13” report.

Reconciliation to previous valuation

Funding position

The previous valuation revealed a surplus of £289m. The key factors that have influenced the funding level of the Fund over the period are illustrated in the chart below.

Experience

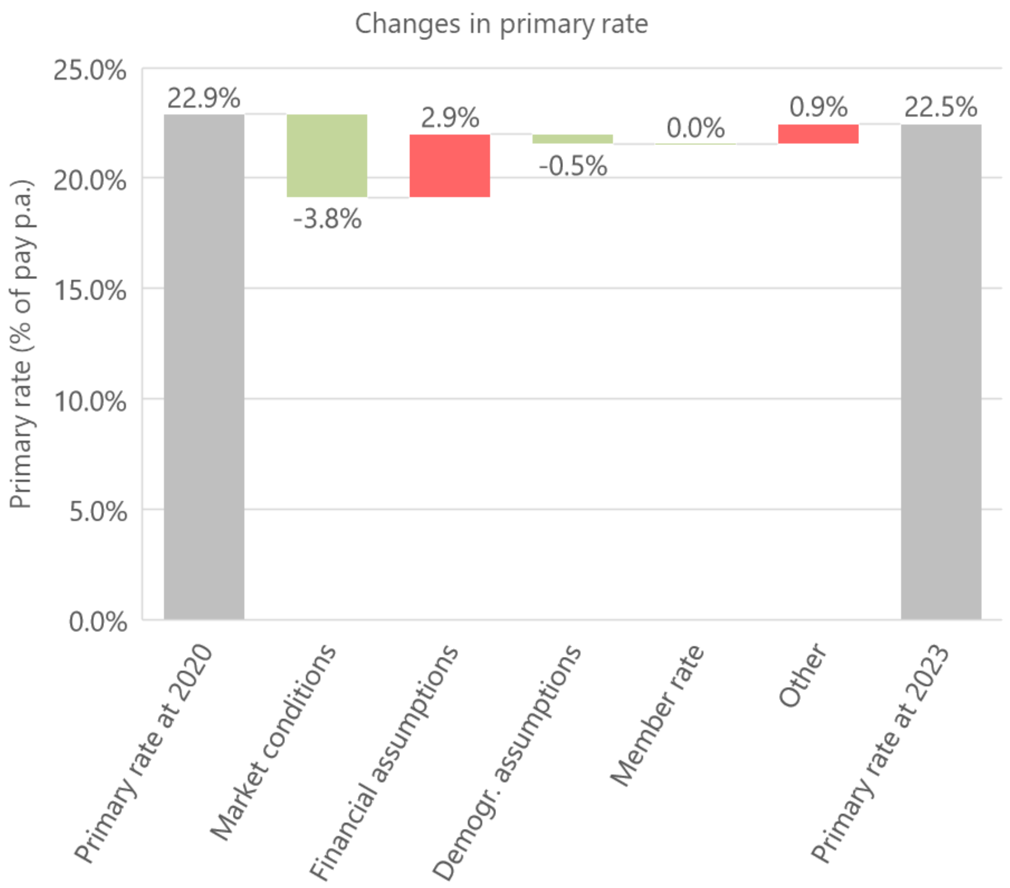
- Investment returns have been strong since 2020 leading to a gain of £754m.
- Contributions paid were lower than the cost of benefits accrued, resulting in a loss of £77m.
- Pension increases and salary increases were higher than assumed which has led to a combined loss of £179m.
- The overall impact of mortality and other demographic assumptions was a small gain of £65m.

Assumptions

- A review of the financial assumptions combined with the change in market conditions resulted in a decrease in the surplus of £451m.

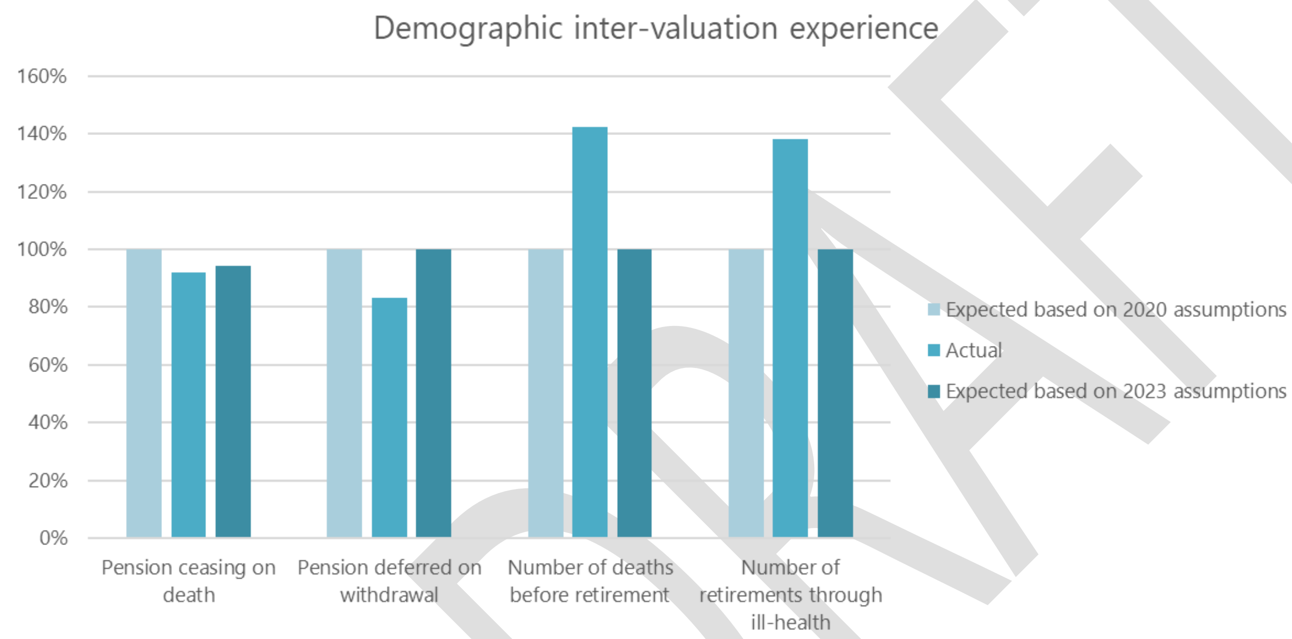
Primary contribution rate

The previous valuation resulted in an average primary rate of 22.9% of Pensionable Pay. The reasons for the change in the cost of future benefit accrual are set out in the reconciliation chart below.



Comparing experience with assumptions

A comparison of the actual demographic experience of members of the Fund over the intervaluation period, with that assumed by the assumptions adopted at the last valuation in 2020 is shown in the graph below. The graph also shows how the assumptions adopted for this valuation would have compared with those adopted at 2020.



The number of deaths before retirement and retirements through ill-health have been higher than expected over the intervalatuation period. This might to some extent be linked to the COVID-19 pandemic which has led to higher than normal mortality and morbidity rates particularly during 2020 and 2021. As it is not clear yet what the long-term impact on these pre-retirement deaths and ill-health retirements will be we have maintained our assumptions from the last valuation. We will keep monitoring the development closely and adjust our assumptions appropriately at future valuations.

Sensitivities to the liabilities

The results set out in this report are based on a particular set of assumptions. The actual cost of providing the benefits will depend on the actual experience, which could be significantly better or worse than assumed. The sensitivity of the results to some of the key assumptions is set out in the table below.

The figures in the table are shown relative to the surplus of £410m and funding level of 110% on the agreed funding basis.

2023 sensitivity analysis of funding position	2023 Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1% p.a.	Increase salary assumption by 0.5% p.a.	Increase long-term rate of mortality improvement by 0.25% p.a.	Increase initial addition to mortality improvement by 0.5%	Decrease 2022 weighting parameter by 25%
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Smoothed asset value	4.34	4.34	4.34	4.34	4.34	4.34	4.34
Total past service liabilities	3.93	3.99	3.99	3.98	3.96	4.03	4.09
Surplus / (Deficit)	**0.41**	**0.35**	**0.35**	**0.36**	**0.38**	**0.31**	**0.25**
Funding level	**110%**	**109%**	**109%**	**109%**	**110%**	**108%**	**106%**

Sensitivities to the primary contribution rate

The calculated primary contribution rate required to fund benefits as they are earned from year to year will also be affected by the particular set of assumptions chosen. The sensitivity of the primary rate to changes in some key assumptions is shown below. Please note that the primary rate set out below does not include any adjustment via the secondary rate. The total contribution rate payable by employers will be a combination of the primary rate and a secondary rate adjustment, further details can be found in Appendix 5.

The figures in the table are shown relative to the primary rate of 22.5% of Pensionable Pay on the agreed funding basis.

2023 sensitivity analysis of primary rate	2023 Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1% p.a.	Increase long-term rate of mortality improvement by 0.25% p.a.	Increase initial addition to mortality improvement by 0.5%	Decrease 2022 weighting parameter by 25%
	% of payroll p.a.	% of payroll p.a.	% of payroll p.a.	% of payroll p.a.	% of payroll p.a.	% of payroll p.a.
Average total future service rate	28.6%	29.3%	29.4%	29.0%	29.4%	29.7%
Less average member rate	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
Fund primary rate	**22.5%**	**23.2%**	**23.2%**	**22.8%**	**23.2%**	**23.6%**

Further comments

Funding Strategy Statement (FSS)

The assumptions used for the valuation have been documented in a revised Funding Strategy Statement agreed between the Fund Actuary and the administering authority.

Risks

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund are:

- Employer covenant risk
- Investment risk
- Inflation risk
- Mortality risk
- Member options risk
- Regulatory risk
- Climate risk

The sensitivity of the funding results to some of these risks was set out in the sensitivities section of this report. Please note that this is not an exhaustive list. Further information on these risks and more can be found in our initial results report and will be set out in greater detail in the FSS.

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Rates and Adjustments Certificate

The contributions payable in respect of benefit accrual and any deficit contributions under each employer's recovery period have been set out in Appendix 5 in the Rates and Adjustments Certificate in accordance with Regulation 60 of the Regulations and cover the period from 1 April 2024 to 31 March 2027. In this certificate no allowance will be made for additional costs arising which need to be met by additional contributions by the employer such as non-ill health early retirements.

The contributions in the Rates and Adjustments Certificate are set so that each employer's assets (including future contributions) are projected to be sufficient to cover the benefit payments for their members, on the assumptions set out in this report. Where there is currently a deficit for an individual employer, recovery of this deficit is targeted in line with the Fund's FSS and all employers are projected to be fully funded after a recovery period length of no more than 12 years from 1 April 2024.

This document has been agreed between the administering authority and the Fund Actuary. Contributions have been set which in our opinion meet the regulatory requirements and the funding objectives set out in the Fund's FSS.

This report must be made available to members on request.

Graeme D Muir FFA
Partner
Barnett Waddingham LLP

Hagen Eichel FFA
Senior consulting actuary
Barnett Waddingham LLP

Appendix 1 Summary of data and benefits

Membership data

The membership data has been provided to us by the administrators of the Fund. We have relied on information supplied by the administrator and the administering authority being accurate. The membership data has been checked for reasonableness and we have compared the membership data with information in the Fund's accounts. The numbers in the tables below relate to the number of records and so will include members in receipt of, or potentially in receipt of, more than one benefit.

Any missing or inconsistent data has been queried with the Fund and estimated where necessary. Whilst this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

Benefits

Full details of the benefits being valued are set out in the Regulations as amended and summarised on the https://www.scotlgpsmember.org/. We have made no allowance for discretionary benefits.

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Membership summary

A summary of the membership data used in the valuation is as follows. The membership data from the previous valuation is also shown for comparison. Please note that the average ages at 31 March 2023 are weighted by salary for active members and by pension for deferred and pensioner/dependant members, the average ages at 2020 are weighted by liability in line with the 2020 valuation report.

Data used	Data at 31 March 2023			Data at 31 March 2020		
Active members	Number	Pensionable pay £m	Average age (salary-weighted)	Number	Pensionable pay £m	Average age (liability-weighted)
Males	5,989	180	48.4	6,045	157	53.4
Females	13,883	314	46.6	13,367	258	51.9
Total	19,872	494	47.3	19,412	415	52.5
Deferred members (including undecided)	Number	Pension £m	Average age (pension-weighted)	Number	Pension £m	Average age (liability-weighted)
Males	5,586	12	49.8	4,756	9	51.0
Females	13,411	22	50.2	10,940	17	50.8
Total	18,997	34	50.0	15,696	26	50.9
Pensioner and dependant members	Number	Pension £m	Average age (pension-weighted)	Number	Pension £m	Average age (liability-weighted)
Males	6,910	58	71.8	6,549	49	68.2
Females	11,341	57	70.6	10,200	44	66.9
Total	18,251	115	71.2	16,749	94	67.6

Projected retirements

In the table below we have set out the number of members who are assumed to reach retirement age over the period from 1 April 2023 to 31 March 2027 as required under the Regulations.

Members may retire for a number of reasons including reaching normal retirement age, retiring through ill-health or redundancy. The amounts set out in the table below are the new retirement benefit amounts, as at the current valuation date that are assumed to come into payment in each of the intervaluation years.

Projected new benefits

Year to	Number of members	Retirement benefits £m's
31 March 2024	1,006	14
31 March 2025	933	13
31 March 2026	1,044	16
31 March 2027	811	14

Guaranteed Minimum Pension (GMP) equalisation and indexation

On 23 March 2021, the Government published the outcome to its GMP Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

As with the previous valuation, we have assumed that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. We are comfortable that our approach is consistent with the consultation outcome.

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Appendix 2 Summary of assumptions

A summary of the assumptions adopted for the valuation at 31 March 2023 and as at 31 March 2020 is set out below.

Assumptions		2023 valuation	2020 valuation
Financial assumptions			
CPI inflation		2.7%	2.4%
Salary increases		3.7%	3.4%
Discount rate		4.3%	3.9%
Pension increases on GMP		Funds will pay limited increases for members reaching SPA by 6 April 2016, and full increases for others	
Demographic assumptions			
Post-retirement mortality		Male / Female	Male / Female
	Base table pensioners	105% / 115% of S3PA_H	110% of S3PA_H
	Base table dependants	115% of S3DA	120% of S3DA
	CMI Model	CMI 2022	CMI 2019
	Long-term rate of improvement	1.25%	1.25%
	Smoothing parameter	7.0	7.5
	Initial addition to improvement	0%	0%
	2020/21/22 weighting parameter	0% / 0% / 25%	n/a
Retirement assumption		Weighted average	Weighted average
Pre-retirement decrements		GAD 2016 scheme val: no salary scale, 50% multiplier to ill-health rates and 100% multiplier to pre-retirement mortality rates	GAD 2016 scheme val: no salary scale, 50% multiplier to ill-health rates and 100% multiplier to pre-retirement mortality rates
50:50 assumption		Member data	Member data
Commutation		50% of max	50% of max
Family statistics			
	% with qualifying dependant	75% (M) / 70% (F)	75% (M) / 70% (F)
	Age difference	3 years	3 years

Discount rate derivation

The following table shows the derivation of the discount rate at this valuation. Further details of this and the derivation of all assumptions were set out in our separate report to the administering authority dated 20 November 2023.

Asset class	Strategic asset allocation	Neutral assumption (p.a.)
Equities	65.0%	6.5%
Fixed Income	13.0%	4.8%
Property	12.0%	6.1%
Local and Alternative Opportunities	10.0%	5.6%
Less expenses		0.2%
Neutral return		**6.0%**
Less prudence adjustment		1.7%
Prudent discount rate assumption		**4.3%**
Relative to CPI		**1.6%**

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Demographic assumptions – sample rates

The following tables set out some sample rates of the demographic assumptions used in the calculations. These sample rates are based on those set by the Government Actuary's Department (GAD) based on analysis of the Local Government Pension Scheme (LGPS).

Allowance for ill-health early retirements

A small proportion of members are assumed to retire early due to ill health. In the table below we set out an extract of some sample rates from the GAD tables used:

Age	Males	Females
25	0.01%	0.00%
30	0.01%	0.01%
35	0.02%	0.01%
40	0.04%	0.03%
45	0.09%	0.06%
50	0.18%	0.13%
55	0.36%	0.28%
60	0.74%	0.62%
65	1.51%	1.34%

Please note the above rates are the raw decrements as set by GAD. Our assumption is that there will be 50% of the number of ill-health retirements assumed by GAD.

The proportion of ill-health early retirements falling into each tier category has been assumed to be as follows for both males and females:

Tier 1	Tier 2
70%	30%

Death before retirement

A small number of members are assumed to die before reaching retirement age. In the table below we set out an extract of some sample rates from the GAD tables used:

Age	Males	Females
25	0.02%	0.01%
30	0.03%	0.01%
35	0.05%	0.02%
40	0.06%	0.03%
45	0.09%	0.05%
50	0.13%	0.08%
55	0.21%	0.12%
60	0.32%	0.19%
65	0.50%	0.29%

Please note the above rates are the raw decrements as set by GAD. We have applied a 100% multiplier to the rates assumed by GAD.

Allowance for withdrawals

This assumption is regarding active members who leave service to move to deferred member status. Active members are assumed to leave service at the following sample rates:

Age	Males	Females
25	9.21%	10.17%
30	7.25%	8.07%
35	5.70%	6.40%
40	4.48%	5.07%
45	3.53%	4.03%
50	2.78%	3.19%
55	2.18%	2.53%
60	1.72%	2.01%
65	1.35%	1.59%

Appendix 3 Regulatory uncertainties

There are currently a few important regulatory uncertainties surrounding the 2023 valuation as follows:

- Effect of the McCloud and Sargeant cases;
- Cost management reviews which could affect future and historic LGPS benefits;
- Change in timing of future actuarial valuations from a triennial cycle; and
- Climate change risks and opportunities.

Although it is unclear what impact these uncertainties will have on the future benefits of individual members, we have considered these issues in the assumptions used to set the contribution rates for employers.

McCloud

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and amended regulations came into force on 1 October 2023.

For the 2023 valuation, we have valued the benefits in line with the McCloud regulations. The data extracts received for valuation purposes did not include the full pay or service history we require to value the cost of the anticipated benefit changes. We therefore made estimates (for active members only) based on the information that is held in data extract provided as well as the membership data used for the 2020 valuation. Our estimates involve projecting members CARE benefits against the equivalent final salary benefit to determine, for each active member, whether the underpin may bite and the liability value if it does. There still remains uncertainty over the long-term effects of the McCloud judgment but where data has been available, we have been able to estimate the impact of McCloud on individual employers and funding positions and contributions have been set accordingly.

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Cost management reviews

There remain uncertainties around the 2016 and 2020 cost management exercises. Although we understand that the Scheme Advisory Board (SAB) will not be recommending any Scheme changes, this is still to be announced. However, we anticipate the impact of any changes to be small and therefore we have not made an explicit allowance for these.

Further cost management reviews will be carried out and may lead to future benefit changes. However, as the aim of this monitoring is to keep the cost of benefits within an affordable range, we can be relatively comfortable that future reviews will not have a significant impact on the value we currently place on the liabilities, therefore we have not made an explicit allowance for these.

Climate change risks and opportunities

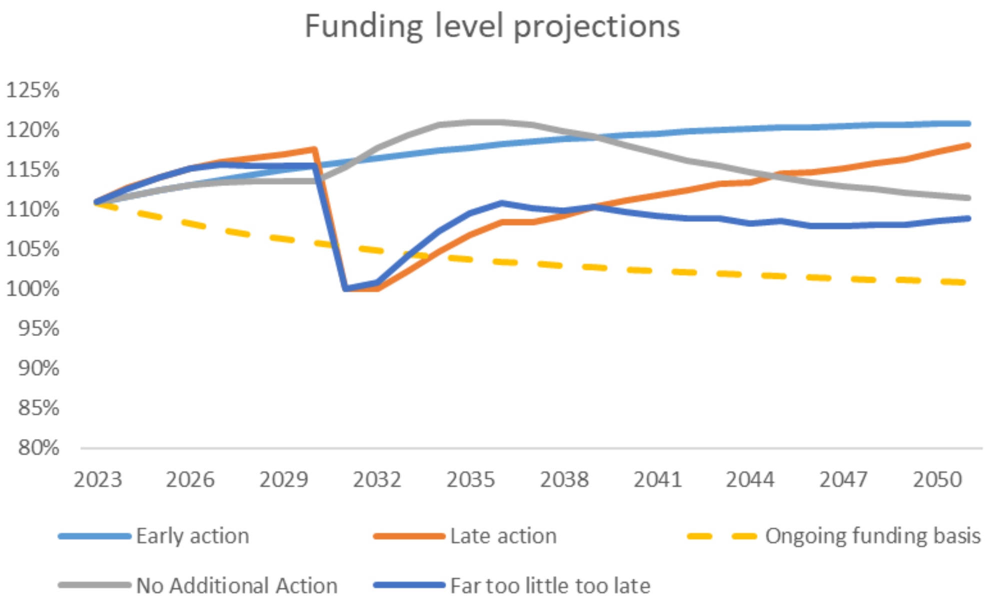
Climate risk is an important consideration for the 2023 valuation. As part of the 2023 valuation process we have used scenario analysis to identify the impact of shorter term climate risk (transition risk) and longer term climate risk (physical risk) on the Fund's potential funding outcomes. This analysis was developed for LGPS funds based on the Department for Work and Pensions regulations, as we await final regulations which apply directly to the LGPS. The analysis was discussed with GAD, who agreed a set of four key principles for how LGPS funds would undertake climate change scenario analysis as part of the 2023 valuation.

Our analysis considered the potential impact on the future investment return outlook (and therefore discount rate) and inflation (and therefore inflation-linked assumptions), for the purpose of projecting asset and liability values and primary rates. We have also considered additional elements such as the potential impact on life expectancy changes and employer covenant. The analysis supports the level of prudence in the funding strategy.

Under the key principles, it was agreed that each fund should select two scenarios to consider as a minimum including: "Paris-aligned" and higher temperature outcome, and compare these to the funding basis.

- "Paris-aligned" is an optimistic basis which assumes that good progress is made towards the ambitions made in the 2015 Paris Agreement.
- A higher temperature outcome assumes that no new climate policies are introduced beyond those already agreed, resulting in a growing concentration of greenhouse gas emissions and a larger increase in global temperatures.

Our analysis considers four scenarios which are detailed in our climate scenario analysis report. The impact of the on the funding position of each scenario is considered in projected funding level graph below.



Our "early action" scenario aims to represent a "Paris-aligned" scenario, and our "no additional action" scenario represents a higher temperature outcome.

One of the other key principles agreed with GAD was for results to be considered over a period of at least 20 years. The funding level is projected over a period of 30 years as can be seen in the graph above.

Detail on the Fund's approach will also be included in the FSS.

COVID-19 crisis

The 2020 valuation report and Rates and Adjustments Certificate were finalised during the first waves of the COVID-19 pandemic. Due to the timing of events, no adjustment was made to the 2020 results. There still remains uncertainty over the long-term effects of COVID-19 but where data has been available, we have been able to consider the impact of COVID-19 on individual funds through the longevity analysis and in setting the mortality assumptions for the Fund. On balance, we would expect the pandemic to lead to a modest reduction in future improvements in life expectancy.

Therefore, we are comfortable that contributions have been set appropriately to allow for COVID-19, based on the data available. More data will be available at the next formal valuation in 2026 where we will update our analysis. We will also continue to monitor the situation during the intervaluation period.

Appendix 4 Dashboard

GAD Dashboard

Past service funding position - local funding basis		
Funding level (assets/liabilities)	%	110%
Funding level (change since previous valuation)	%	1%
Asset value used at the valuation	£m	4,340
Value of liabilities	£m	3,930
Surplus (deficit)	£m	410
Discount rate – past service	% pa	4.3%
Discount rate – future service	% pa	4.3%
Assumed pension increases (CPI)	% pa	2.7%
Method of derivation of discount rate, plus any changes since previous valuation		In line with the Funding Strategy Statement
Life expectancy for current pensioners – men age 65	years	18.8
Life expectancy for current pensioners – women age 65	years	21.5
Life expectancy for future pensioners – men age 45	years	20.1
Life expectancy for future pensioners – women age 45	years	23.1
Past service funding position - SAB basis (for comparison purposes only)		
Market value of assets	£m	4,834
Value of liabilities	£m	3,685
Funding level on SAB basis (assets/liabilities)	%	131%
Funding level on SAB basis (change since last valuation)	%	4%

GAD Dashboard

Contribution rates payable		2023 Valuation	2020 Valuation
Primary contribution rate	% of pay	22.5%	22.9%
Secondary contribution rate (cash amounts in each year in line with CIPFA guidance)	£m		
Secondary contribution rate - 1st year of rates and adjustment certificate	£m	-34	-25
Secondary contribution rate - 2nd year of rates and adjustment certificate	£m	-35	-26
Secondary contribution rate - 3rd year of rates and adjustment certificate	£m	-36	-27
Giving total expected contributions			
Total expected contributions - 1st year of rates and adjustment certificate (£ figure based on assumed payroll)	£m	81	73
Total expected contributions - 2nd year of rates and adjustment certificate (£ figure based on assumed payroll)	£m	84	76
Total expected contributions - 3rd year of rates and adjustment certificate (£ figure based on assumed payroll)	£m	88	78
Assumed payroll (cash amounts in each year)			
Total assumed payroll - 1st year of rates and adjustment certificate (£m)	£m	512	430
Total assumed payroll - 2nd year of rates and adjustment certificate (£m)	£m	531	444
Total assumed payroll - 3rd year of rates and adjustment certificate (£m)	£m	551	459
3-year average total employer contribution rate	% of pay	15.8%	17.0%
Average employee contribution rate (% of pay)	% of pay	6.1%	6.1%
Employee contribution rate (£ figure based on assumed payroll of £m)	£m pa	31	26

GAD Dashboard

Deficit recovery plan		2023 Valuation	2020 Valuation
Latest deficit recovery period end date for any employer in deficit in fund	Year	n/a	n/a
Earliest surplus spreading period end date for any employer in surplus in fund	Year	2036	2033
Where a deficit recovery period or surplus spreading period end date is not provided, the latest time horizon end point for valuation funding plan for any employer in deficit	Year	n/a	n/a
Where a deficit recovery period or surplus spreading period end date is not provided, the earliest time horizon end point for valuation funding plan for any employer in surplus	Year	n/a	n/a

Additional information			
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	%	0%	
Percentage of total liabilities that are in respect of Tier 3 employers	%	6%	
Included climate change analysis/comments in the 2023 valuation report	Yes/No	Yes	
Value of McCloud impact on the local funding basis	£m	19	

Appendix 5 Rates and Adjustments Certificate

Regulatory background

In accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2024 to 31 March 2027.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments Certificate are detailed in the Funding Strategy Statement and our report on the actuarial valuation dated 08 March 2024.

The primary rate of contribution as defined by Regulation 60(8) for each employer for the period 1 April 2024 to 31 March 2027 is set out in the table overleaf. The primary rate is the employer's contribution towards the cost of benefits accruing in each of the three years beginning 1 April 2024. In addition each employer pays a secondary contribution as required under Regulation 60(8) that when combined with the primary rate results in the minimum total contributions as set out below. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Primary and secondary rate summary

The primary rate for the Fund is the weighted average (by payroll) of the individual employers' primary rates and is 22.5% p.a. of payroll.

The secondary rates across the entire Fund (as a percentage of projected Pensionable Pay and as a monetary amount) in each of the three years in the period 1 April 2024 to 31 March 2027 is set out in the table below.

Secondary contributions	2024/25	2025/26	2026/27
Total as a % of payroll	-6.7%	-6.6%	-6.6%
Equivalent to total monetary amounts of	-£34,113,828	-£35,251,950	-£36,434,000

These amounts reflect the individual employers' secondary rates.

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General notes

Employers may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by us as the Fund Actuary. The administering authority, with the advice from us as the Fund Actuary may allow some or all of these contributions to be treated as a prepayment and offset against future certified contributions.

The certified contributions include an allowance for expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by participating employers in addition.

Employer code	Employer name	Primary rate (% pay)	Secondary rate (% pay plus monetary adjustment) 2024/25	2025/26	2026/27	Total contributions i.e. primary (% of pay) plus secondary 2024/25	2025/26	2026/27
Employers participating in common funding pool								
20	Dundee City Council	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
30	Perth And Kinross Council	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
40	Angus Council	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
200	Tay Road Bridge	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
204	University Of Dundee	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
205	Dundee Citizens Advice Bureau	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
207	Dundee Voluntary Action	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
208	Dovetail Enterprises	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
213	Tayside Joint Police Board	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
215	Tayside Fire And Rescue	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
218	Dundee Contemporary Arts Ltd	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
219	Tayside Valuation Joint Board	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
220	Dundee Science Centre	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
222	Tayside Contracts	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
223	Scottish Social Work and Sorcial Care	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
224	Scottish Social Serv. Council	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
229	Highlands & Islands Airports	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%

Employer code	Employer name	Primary rate (% pay)	Secondary rate (% pay plus monetary adjustment) 2024/25	2025/26	2026/27	Total contributions i.e. primary (% of pay) plus secondary 2024/25	2025/26	2026/27
232	Leisure and Culture Dundee	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
233	Tayplan	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
236	Dundee and Angus College	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
237	Idverde	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
300	Live Active Ltd	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
302	Perth College	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
304	Perth Theatre Company Ltd	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
305	Perth Citizens Advice Bureau	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
306	Perth And Kinross Society for the Blind	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
317	Perth Countryside Trust	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
318	TACTRAN	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
319	MITIE PFI LTD	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
320	Culture Perth and Kinross	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
401	Montrose Port Authority	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
403	Montrose Links Trust	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
405	Forfar Day Care Centre	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
408	Dorward House	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
409	Rossie Secure Accommodation Services	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
418	Robertson Facilities Management	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
419	Angus Alive	22.5%	-6.8%	-6.8%	-6.8%	15.7%	15.7%	15.7%
Individual Closed employers								
203	University of Abertay Dundee	24.4%	-2.9%	-1.4%	-	21.5%	23.0%	24.4%
206	Travel Dundee	31.7%	8.3%	8.3%	8.3%	40.0%	40.0%	40.0%
217	Abertay Housing Association	25.3%	-2.9%	-1.5%	-	22.4%	23.8%	25.3%

ITEM No …16………..

REPORT TO:	**PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**
REPORT ON:	**FUNDING STRATEGY STATEMENT 2024**
REPORT BY:	**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**
REPORT NO:	**83-2024**

1 PURPOSE OF REPORT

This report reviews the Funding Strategy Statements for the Tayside Pension Fund.

2 RECOMMENDATION

The Funding Strategy Statement is required to be reviewed annually, and the Sub-Committee is asked to approve, noting an amendment to the cessation approach following the strong rise in gilt yields since the end of 2022. The calculation method has been reviewed and adjustments have been made to the stochastic approach including a reduction of the probability limit of a deficit arising from 20% to 15%.

3 FINANCIAL IMPLICATIONS

There are no direct financial costs although the funding strategy does have indirect impact on employers' contribution rates. This strategy is designed to minimise risk of financial impact.

4 INTRODUCTION

It is the responsibility of Dundee City Council, acting in its capacity as Administering Authority to the Tayside Pension Fund, to prepare, publish and maintain the Funding Strategy Statement having regard to guidance produced in February 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) in a document entitled "Preparing and Maintaining a Funding Strategy Statement".

The initial Funding Strategy Statement (Article III of the Minute of Meeting of the Superannuation Sub-Committee of the Policy and Resources Committee of 1 March 2006, Report No 57-2006 refers) states that the pension regulations require the Fund Actuary to have regard to it as part of the process for the actuarial valuation of the Fund. The previous Funding Strategy Statement (Article XVI of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 20 March 2023, report no 98-2023 refers) which took account of the triennial valuation of 31 March 2020.

5 METHOD OF CESSATION VALUATION FOR EXITING EMPLOYERS

Until September 2021, the method of valuation of cessation liabilities was based on the value of UK treasury gilts, and not in respect of the Fund's actual asset allocation. As the Fund do not intend to disinvest current investments to purchase gilts (as would be the case in private sector corporate pension schemes), a solution was sought to both accommodate employers in being able to exit the fund at a rate that was affordable, but also at minimal risk of impact to the employers remaining in the fund in relation to maintaining contribution levels.

The Fund's actuary uses a stochastic approach which both limits the probability of future deficit to 20%, which at the time was less prudent than the then current gilts-cessation basis, but produced a more affordable valuation of cessation liabilities whilst still providing sufficient protection for the other employers in the Fund; noting that in circumstances where exiting employers are unable to meet cessation liabilities, then all employers in the Fund would be required to pay revised contributions to meet the shortfall, resulting in increased contribution rates being imposed.

The Fund Actuary's proposal was approved at the joint meeting of the Pension Sub-Committee & Pension Board on 21 June 2021 (Article XIV of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 21 June 2021, report no 201-2021 refers) and the Funding Strategy Statement has been subsequently revised. All employers had been consulted in the drafting of this statement as required by pension regulations, prior to presentation to the Sub-Committee for approval.

As part of the 2023 actuarial valuation the Fund's actuary has reviewed the cessation approach following the strong rise in gilt yields since the end of 2022. As a result of this review adjustments were made to the stochastic approach including a reduction of the probability limit of a deficit arising to 15%.

6 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

7 CONSULTATIONS

All participating bodies have been consulted in the drafting of the Funding Strategy Statement. The Chief Executive and Head of Democratic & Legal Services have also been consulted in the preparation of this report.

9 BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

APPENDIX 1

Tayside Pension Fund

FUNDING STRATEGY STATEMENT

MARCH 2024

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1 OVERVIEW

1.1 This Funding Strategy Statement has been prepared in accordance with Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018 (the Regulations). The Statement describes the strategy of Dundee City Council acting in its capacity as Administering Authority (the Administering Authority) for the funding of Tayside Pension Fund (the Fund).

1.2 As required by Regulation 56(4), the Statement has been prepared having regard to guidance first published by CIPFA in March 2004, with revisions in September 2016 to reflect the introduction of the Public Service Pensions Act 2013, the new 2015 scheme and changes to investment regulations.

2 PURPOSES OF THE STATEMENT

2.1 The four main purposes of this Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To ensure solvency and long-term cost efficiencies are met.
- To take a prudent longer-term view of funding the Fund's liabilities.

3 CONSULTATION

3.1 In accordance with Regulation 56(3), all employers participating within the Fund have been consulted on the contents of this Statement and their views have been considered in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

3.2 In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (the Investment Regulations), as required by Regulation 56(4)(b)

3.3 The Fund Actuary, Barnett Waddingham, has also been consulted on the contents of this Statement.

4 PURPOSE AND AIMS OF THE FUND

Purpose of the Fund

4.1 The purpose of the Fund is:

- To pay out monies in respect of Local Government Pension Scheme (the Scheme) benefits, transfer values, costs, charges and expenses.
- To receive monies in respect of contributions, transfer values and investment income and other charges, costs and expenses.

The Aims of the Fund in Relation to the Funding Strategy

4.2 The aims of the Fund in relation to the Funding Strategy are set out below.

The first aim is to enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheme Employers and to the taxpayers.

4.3 The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency, and that contribution rates be set at such a level to ensure that liabilities can be met as they arise

- that contribution rates not be set at a level that gives rise to additional costs (e.g. deferring costs to the future) in order to ensure long term cost efficiency

- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost parameters (see the fourth aim).

4.4 Producing low volatility in employer contribution rates requires material investment in assets that 'match' the employer's liabilities. In this context 'match' means assets that behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Scheme, such assets would tend to comprise index linked gilt edged investments.

4.5 Other classes of assets, such as shares and property, are perceived to offer higher long-term rates of return, on average, and consistent with the requirement to maximise the returns from investments, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are riskier in nature and that risk can manifest itself in volatile returns over short-term periods and a failure to deliver the expected return in the long-term.

4.6 This short-term volatility in investment returns can produce a consequent volatility in the measured financial and funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of longer-term actuarial funding models, smoothing adjustments and using volatility reserves at each valuation.

4.7 The Administering Authority recognises that there is a balance to be struck between the investment policies adopted, the actuarial funding models used at valuations and the resultant smoothness of employer contribution rates from one valuation period to the next.

The second aim is to ensure that sufficient resources are available to meet all liabilities as they fall due.

4.8 The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a daily basis to ensure that all cash requirements can be met.

The third aim is to manage employers' liabilities effectively.

4.9 The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial and investment advice, ensuring that employers and Pension Sub-Committee members are properly informed and through regular monitoring of the financial and funding position.

The fourth aim is to maximise the income from investments within reasonable risk parameters.

4.10 The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as shares and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations,
- restricting investment to asset classes generally recognised as appropriate for UK pension funds,

- analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Investment Managers.

5 RESPONSIBILITIES OF THE KEY PARTIES

5.1 The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Employers and the Fund Actuary.

Administering Authority

5.2 The key responsibilities of the Administering Authority are set out below.

The first key responsibility is to collect employer and employee contributions and, as far as the Administering Authority is able to, ensuring these contributions are paid by the due date.

5.3 Individual employers must pay contributions in accordance with Regulations 62, 63 and 64of the Regulations.

5.4 The Administering Authority has advised all employers of its policy on the remittance of pension contributions and the procedures which will be taken in the event of late or non-payment.

5.5 It is a legal requirement that pension contributions be paid to the Fund by the 19th of the month following the month that they were deducted from employees' pay.

5.6 The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased by:

- requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement,
- notifying the Admission Body that it must meet any deficit at the cessation of the Agreement.

The second key responsibility is to invest surplus monies in accordance with the Regulations.

5.7 The Administering Authority will comply with the Investment Regulations.

The third key responsibility is to ensure that cash is available to meet liabilities as and when they fall due.

5.8 The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund in relation to the Funding Strategy.

The fourth key responsibility is to manage the valuation process in consultation with the Fund Actuary.

5.9 The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and provision of valuation results,
- ensure provision of data of suitable accuracy,
- ensure that the Fund Actuary is clear about the Funding Strategy,
- ensure that participating employers receive appropriate communication throughout the process,
- ensure that reports are made available as required by Guidance and Regulation.

The fifth key responsibility is to prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.

5.10 The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

The sixth key responsibility is to monitor all aspects of the Fund's performance and funding and amend these two documents if required.

5.11 The Administering Authority monitors the investment performance and the financial and funding position of the Fund on a quarterly basis.

5.12 The Statement of Investment Principles and Funding Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

Individual Employers

5.13 Individual employers are responsible for:

- deducting contributions from employees' pay,
- paying all contributions, including their employer contribution as determined by the Actuary, promptly by the due date,
- paying any interest due under Regulation 66 of the Local Government Pension Scheme (Scotland) Regulations 2018,
- exercising discretions within the regulatory framework and ensuring the Administering Authority has copies of current policies covering those discretions,
- paying for added years in accordance with agreed arrangements,
- paying the Strain on the Fund costs resulting from early retirements or exercises of discretion allowing the early payment of deferred benefits. Payment is due immediately unless it has been agreed that payment can be spread over a short period of years,
- notifying the Administering Authority promptly of all changes to membership, or other changes which affect future funding.
- providing timeous returns annually or monthly, as agreed, and for valuation purposes.
- ensuring that there is suitable covenant protection in place in the event of cessation.
- providing such financial and covenant information as is necessary for the Administering Authority to properly assess the funding risk relating to each employer.

The Fund Actuary

5.14 The key responsibilities of the Fund Actuary are set out below.

The first key responsibility is to prepare valuations.

5.15 The Fund Actuary will prepare valuations, including the setting of employers' contribution rates, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and relevant admission agreements.

5.16 Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Technical Actuarial Standards (TAS's) issued by the Financial Reporting Council, to the extent that the TAS's are relevant to the Scheme.

The second key responsibility is to prepare advice and calculations in connection with bulk transfers individual benefit-related matters together with any ad-hoc requirements agreed with the administering authority.

5.17 Such advice will take account of the financial and funding position and Funding Strategy Statement, along with other relevant matters.

6 SOLVENCY

6.1 The Administering Authority will prudently seek to secure the solvency of the Fund. For this purpose, the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities in respect of service prior to the measurement date when measured using 'ongoing' actuarial methods and assumptions.

6.2 Ongoing actuarial methods and assumptions are taken to be measured by use of the Projected Unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant. Where an employer is closed to new members alternative methods may be adopted on the advice of the Fund Actuary.

6.3 The financial assumptions used to assess the financial position will have regard to the yields and long-term returns that are expected from the underlying investment strategy net of costs and less a margin for prudence. The Administering Authority understands the risks of such an approach if those additional returns fail to materialise.

6.4 Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments and using volatility reserves in making the solvency measurement.

6.5 The Fund will regularly carry out employer covenant reviews to obtain key financial and non-financial information about employers. This can include details of funding sources and financial statements. The results of the covenant reviews are passed to the Fund’s Actuary at each actuarial valuation and may be factored into setting any individual employer contributions.

7 FUNDING STRATEGY

Valuation Methods

7.1 Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, contribution rates are set by use of the Projected Unit valuation method for most employers.

7.2 The Projected Unit method produces contribution rates which target solvency over fixed periods in the future. It will tend to produce more stable contribution rates for those employers who expect a future flow of new entrants to the Fund, which would tend to keep the age distribution of members stable.

Valuation assumptions and funding model

7.3 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

7.4 The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future price inflation

7.5 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (RPI). The RPI assumption adopted as at 31 March 2023 was 3.15% p.a.

Future pension increases

7.6 Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 0.35% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2023 was 2.7% p.a.

Future pay inflation

7.7 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2023 was CPI plus 1% p.a.

Future investment returns/discount rate

7.8 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

7.9 The discount rate that is applied to the projected liabilities reflects a prudent estimate of the rate of investment return that is assumed to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate. The discount rate adopted for the 31 March 2023 valuation was 4.3% p.a.

7.10 For some employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer becomes an exiting employer under Regulation 62.

7.11 The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

7.12 The adjustment to the discount rate for employers may be set to a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a more prudent basis rather than the ongoing basis if the Fund do not believe that there is another Scheme employer to take on the responsibility of the liabilities after the employer has exited the Fund. The aim is to lower the risk of deficits arising after the termination date.

Asset valuation

7.13 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date and may also include a volatility reserve as a margin against future adverse experience.

Statistical assumptions

7.14 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

7.15 Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

Pooling of employers

7.16 Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits all employers to be treated as a group for the purposes of setting contribution rates.

7.17 An exception to this general rule will be where an employer closes access to the fund for new employees or once employers have had no new membership for a five-year period, the employers will be perceived to have closed fund status. This will have consequences for the liability profile and the actuary may set a separate rate for individual employers in this instance.

7.18 The Administering Authority recognises that common rates can give rise to cross subsidies from one employer to another over time. This can arise from different membership profiles of the different employers and from different experience, for example an excess of ill health retirements from one employer could lead to it being subsidised by other grouped employers. However, over longer time periods it would be expected that the experience will even out between employers and each employer will, on average, pay a fair level of contributions. The benefit of common rate is that it should produce a less volatile contribution rate on average for each individual employer.

Recovery Period

7.19 Where a valuation reveals that the Fund is in surplus or deficiency against the solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable is set by the Administering Authority in consultation with the Fund Actuary, with a view to balancing the various funding requirements against the risks involved.

7.20 The Administering Authority recognises that a larger proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary to adopt prudent recovery periods consistent with the objective of keeping employer contribution rates as stable as possible.

Valuation, and Recovery of Exit Payments where an organisation (including an Admission body) ceases to be an employer in the Fund, or in circumstances where it is likely that an organisation will cease to be an employer in the Fund.

7.21 When an organisation (including an admission body) ceases to be an employer participating in the Fund (or, in the opinion of the Administering Authority, is likely to cease to participate in the Fund), the Fund Actuary will carry out a cessation valuation. The Administering Authority will then pursue the recovery of any deficiency from that organisation based on that valuation. The Administering Authority has determined (in line, in particular, with aims one and two set out in Part 2 above) that cessation valuations will be undertaken on a more prudent basis to the on-going funding basis on which contributions are determined for on-going employers. The level of prudence will be set by the actuaries using a stochastic approach with the aim to limit the probability of a deficit arising in the future to 15%. This basis is less volatile than a gilts-cessation basis and should lead to more stable cessation liabilities while providing sufficient protection for the other employers in the Fund. The Administering Authority may, but is not required to, consider making an exception to its policy on the basis used to perform cessation valuations in certain circumstances having regard always to relevant factors including (i) the requirements of the Regulations, (ii) the impact that any such exception may have on other employers and stakeholders in the Fund, (iii) the actuarial advice it receives and (iv) the particular circumstances relating to the exiting employer (for example where there is a merger of employers).

7.22 If an employer (other than a transferee[1] admission body) fails and cannot pay the contributions due, Regulations require that all employers in the Fund must pay revised contributions to meet the shortfall.

7.23 In recent years the Administering Authority has adopted a policy of requiring admission bodies (other than transferee[1] admission bodies) to obtain a guarantor. A guarantor is required to

[1] a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer

agree that it will meet the shortfall if the admission body closes and cannot pay the contributions due.

7.24 Some longer standing admission bodies do not have a guarantor. If one of these were to cease to be an employer in the Fund in circumstances where they could not pay the contributions due, then all employers in the Fund would be required to pay revised contributions to meet the shortfall.

7.25 The position is different for transferee[1] admission bodies. If a transferee admission body fails and cannot pay the contributions due, then the Scheme employer in relation to that transferee admission body must pay revised contributions to meet the shortfall.

7.26 All employers must provide the Administering Authority with such information as it may reasonably request to enable it to review the financial and funding risk relating to participating employers. If it appears to the administering authority that the insolvency risk of an employer is deemed to be material, then the Administering Authority will seek to agree measures (including bonds, security over assets or additional funding or security) with the employer to minimise the risk of any deficit on cessation being met from remaining employers.

Stepping

7.27 Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach and will examine the financial impact and risks associated for each employer. The Administering Authority's policy is to limit the number of permitted steps to three annual steps.

Monitoring of the Financial and Funding Position between Valuations

7.28 The Administering Authority will monitor the financial and funding position of the Fund between triennial valuations. If it is considered appropriate, an indicative interim valuation is carried out. The purpose of this monitoring process is to give employers advance warning of likely changes that may be required following the next triennial valuation. This allows improved budgeting decisions to be made and allows an employer to take an informed decision on paying additional contributions.

Prepayment option

7.29 Employers have the opportunity to advance pay contributions on an annual basis and can receive a reduction in amount on prepayment. This option is predicated upon the principle of receiving contributions sooner than would have otherwise been the case, and all other things being equal, the Fund investing and earning additional investment returns on contributions paid, resulting in a lower contribution requirement over the three years.

7.30 In the case that prepayment is chosen, the advance payment is due by 30 April each year with reductions applied in line with the financial assumptions set by the Fund Actuary.

7.31 The contributions can attract reductions but the notional amounts payable to cover contributions due to the Fund are then subject to annual reviews and a balancing payment will be required from employers in any case of underpayment compared to the amount due in accordance with the Actuary's Rates and Adjustments Certificate, based on actual pensionable payroll during the year. Prepayments are notional amounts, based on the estimated pensionable payroll for future years, as confirmed by the employer to the Fund.

8 IDENTIFICATION OF RISKS AND COUNTER MEASURES

8.1 The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering

Authority will monitor the risks to the Fund and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are set out below.

Demographic (including mortality risk)

8.2 The main demographic risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently and reports on developments. The Administering Authority will agree with the Fund Actuary any changes that are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

8.3 If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for transferee[1] admitted bodies.

Regulatory & Legislative

8.4 These risks relate to changes in regulations, national pension requirements or HMRC rules. The Administering Authority will keep abreast of all proposed changes and, where possible and after careful consideration, express its opinion during consultation periods. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify employers of this likely impact and the timing of any change.

Governance

8.5 The Administering Authority's policy is to require regular communication between itself and employers and to ensure regular reviews of such items as financial and funding positions and legislative changes.

Statistical/Financial (investment & inflation risk)

8.6 This covers items such as the performance of markets and the Fund's investment managers, asset reallocation in volatile markets, pay and price inflation varying from anticipated levels, or the effect of possible increases in employer contribution rates on service delivery and on employers.

8.7 The Administering Authority reviews each investment manager's performance quarterly and regularly considers the asset allocation of the Fund. It will also receive quarterly update on the effect of market movements on the Fund's overall financial and funding position.

Solvency Measure

8.8 The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the risk position.

Smoothing

8.9 The Administering Authority recognises that utilisation of a smoothing adjustments and volatility reserves introduces an element of risk, in that they may not produce the only measure of the underlying financial and funding position. The Administering Authority's policy is to review the impact of such adjustments at each valuation to ensure that they remain within acceptable limits.

Recovery Period

8.10 The Administering Authority recognises that permitting deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length.

Stepping

8.11 The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss risks inherent in each situation with the Fund Actuary and limit the number of permitted steps to three annual steps.

Prepayment option

8.12 Prepayment may or may not result in higher investment returns being credited to the employer assets in the Fund. Beyond, the initial discount available on the cash contribution requirement, the principle of the prepayment option provides certainty of employer contribution, and the associated short-term cash advantages assume a positive investment return being obtained of at least the level assumed in the actuarial valuation. The extent to which there are lower returns for the period, reducing the financial benefits of the arrangement, future contribution requirements may be higher.

9 LINKS TO INVESTMENT POLICY AS SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

9.1 The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this statement.

9.2 In order to assist in setting the Fund's investment policy, an investment strategy review is carried out. This study examines the Fund's current investment strategy's appropriateness in light of the nature of the Fund's liabilities. The study is carried out at the total Fund level, not at the level of each employer. The strategic asset allocation benchmark adopted is set in reference to the nature of the Fund's liabilities.

9.3 The strategic asset allocation implemented is based upon an investment strategy review conducted by the Fund's Investment Advisor, Isio, and in reference to the nature of the liabilities as outlined in the Fund's 31 March 2017 actuarial valuation. The strategy review concluded that a diversified portfolio, investing across active equities (55%), passive equities (10%), property (12%), bonds (13%) and alternative and opportunistic investments (10%) remains a suitable long-term strategic asset ambition for the Fund. The degree and nature of risks attaching to such a portfolio, when taken in conjunction with the expected returns, were considered by the Committee to be appropriate for the Fund at that time.

9.4 The Administering Authority will continue to monitor the suitability of the investment policy in the light of the Fund's developing liabilities and finances.

9.5 The Administering Authority will continue to review the Funding Strategy Statement and the Statement of Investment Principles to ensure that the overall risk profile remains appropriate. Such reviews may use asset liability modelling or other analysis techniques.

10 FUTURE MONITORING

10.1 The Administering Authority plans to review formally this Statement as part of the triennial valuation process unless circumstances arise which require earlier action.

10.2 The Administering Authority will monitor the financial and funding position of the Fund on an appropriate basis at regular intervals between valuations and will discuss with the Actuary whether any significant changes have arisen that require action.

ITEM No …17………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 18 MARCH 2024**

REPORT ON: **STATEMENT OF INVESTMENT PRINCIPLES REVIEW**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **84-2024**

1 PURPOSE OF REPORT

This report reviews Statement of Investment Principles for Tayside Pension Fund.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the information within the report, noting the changes to benchmark in Appendix C effective from 1 April 2024; and to approve the Statements of Investment Principles contained in Appendix 1.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 INTRODUCTION

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 required administering authorities to prepare, maintain and publish a written Statement of Investment Principles (SIP). This written statement has been approved by the Pension Sub-Committee annually since 2000 for Tayside Pension Fund.

These regulations have been replaced by the Local Government Pension Scheme Management and Investment of Funds (Scotland) Regulations 2010 and further amended by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016. The requirements for a Statement of Investment Principles are broadly similar but Regulation 12 (3) now requires funds to state the extent to which they comply with guidance given by the Scottish Ministers.

The Scottish Ministers guidance refers to the six revised principles on investment decision making contained within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009). A revised Statement of Investment Principles (Article IV of the minutes of the Superannuation Sub-Committee of the Policy and Resources Committee meeting of the 15 November 2010, Report No 676-2010 refers) review application in accordance with the Myners Principles, with a further revision (Article II of the minutes of the Superannuation Sub-Committee of the Policy and Resources Committee meeting of 27 February 2012, Report No 104-2012 refers).

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 **BACKGROUND PAPERS**

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

Tayside
Pension Fund

STATEMENT OF INVESTMENT PRINCIPLES

MARCH 2024

1 **INTRODUCTION**

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require administering authorities to prepare, maintain and publish a written Statement of Investment Principles. A Statement of Investment Principles should cover the policy on:

- The types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected return on investments
- The realisation of investments
- The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights) attaching to investments
- Stock lending
- The extent of compliance with the six principles of investment practice set out in CIPFA publication "Investment Decision Making and Disclosure in Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

2 **ADMINISTRATION AND GOVERNANCE**

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Pension Sub-Committee of the City Governance Committee which comprises 6 elected members from Dundee City Council. The Pension Board, comprising of 4 employer representatives (external to the administering authority) and 4 trade union representatives (representing all types of members) assist the Sub-Committee with securing compliance to the regulations.

Investment decisions are made based on advice from Council Officers and professional external advisers. The Sub-Committee and Pension Board meet quarterly.

3 **INVESTMENT ROLES AND RESPONSIBLITIES**

The full remit of the Sub-Committee is shown at Appendix A.

4 **INVESTMENT OBJECTIVES OF THE FUND**

The primary objective of the Tayside Pension Fund is to provide for scheme members' pension and lump sum benefits on their retirement or for their dependants on death before or after retirement, on a defined benefits basis. There is limited discretion to vary these benefits.

The investment principles of the Fund have been set to ensure that the Fund meets its objective. This document outlines the investment principles governing the investment policy of the Fund.

5 **INVESTMENT STRUCTURE, STRATEGY & OBJECTIVES**

The Fund's investment policy will be directed to achieving and maintaining a fully funded scheme in keeping with actuarial valuation and where practical, maintain a stable employers contribution rate. There is also a requirement to maintain sufficient cash to meet liabilities as they fall due for payment. The Fund uses a Statement of Investment Beliefs (Appendix D) which has been designed to support the Fund in underpinning the investment decision making processes and also as a reference point for understanding why investment decisions have been, and are, made.

The latest actuarial valuation of the Fund is shown in Appendix B.

The investment objective is to maximise the overall return whilst maintaining a prudent and balanced investment exposure. To achieve its investment objectives, the Fund will utilise the following different types of investments:

Equities, Managed Funds, Unit Trusts, Partnerships, Investment Trusts, Open Ended Investment Companies, Bonds, Underwriting, Property, Stock Lending, Direct Lending, Cash, Commission Recapture and Currency. Derivatives may be used, but only for efficient portfolio management or the reduction of risk. All investments and investment limits will comply with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

6 INVESTMENT MANAGERS

The Fund will employ Investment Managers who are judged most suitable to manage the assets of the Fund. The Fund currently employs a range of managers that have been chosen in light of the overall investment strategy and have benchmarks and targets set to provide a prudent and balanced investment exposure to an acceptable level of investment risk.

The asset allocation, structure, manager mix and investment objectives are detailed in appendix C. These objectives and targets have been set to ensure a prudent and balanced investment exposure, which helps control the level of investment risk. Appendix C details the current strategy.

The performance of these managers is monitored on a quarterly basis.

7 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

A target has been agreed with each Manager which gives the Manager the balance between different types of investments. These provide an efficient balance between risk and return.

The Investment Managers are given full discretion over the choice of individual stocks within agreed parameters and are expected to maintain a diversified portfolio.

8 RISK

In order to achieve its investment objective, the Fund takes investment risk including equity risk, active management and illiquidity risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that objectives will not be met.

The Fund will seek to control risk through proper diversification of investments and Investment Managers. The performance of each manager's portfolio is reported to the Sub-Committee quarterly.

The Fund’s current Risk Policy & Strategy reflecting existing practices, with guidance from the CIPFA publication Managing Risk in the Local Government Pension Scheme and from the Pensions Regulator’s code of practice for public service pension schemes was approved on 26 June 2023 (Article IV of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee & Pension Board of 26 June 2023, report no 195-2023 refers). This is subject to annual review, and the risk register is reviewed and updated on a quarterly basis.

9 EXPECTED RETURN

Investment Managers will be held accountable for their performance through a regime of performance measurement against targets.

The Benchmark and performance target set for each Manager are intended to ensure that the total fund investment returns achieved are in excess of that assumed in the Actuarial Valuation.

10 REALISATION OF ASSETS

The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy. The

Managers may determine whether or not to sell particular investments and which investments to sell to raise cash as and when required for meeting cash requirements notified to the Manager.

11 **ADVISERS**

Investment Consultant	ISIO Ltd
Corporate Governance	Pensions Investment Research Consultants Ltd (PIRC)
Actuarial	Barnett Waddingham

12 **PERFORMANCE MEASUREMENT**

Quarterly and Annual performance figures are provided by Northern Trust and considered by the Sub-Committee.

13 **CUSTODIAN**

Northern Trust is the sole custodian for the Fund's assets.

14 **AUDITORS**

External Auditors - Audit Scotland
Internal Auditors – Pricewaterhouse Coopers

15 **ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)**

Whilst recognising its over-riding fiduciary duties the fund will continue to encourage its managers to engage on issues with companies in which it holds investment. The managers will be instructed to summarise this engagement activity in their quarterly Investment Reports. The key areas will continue to be Employee Care, Human Rights, Sustainability and the Environment. Review of Approach to Socially Responsible Investing (Article V of the Minute of the Joint Meeting of the Pension Sub-Committee of the Policy and Resources Committee and The Pension Board of 4th June 2018, Report No 194-2018 refers) shows the current Policy on Environmental, Social and Corporate Governance.

In addition, the Fund believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios through time. So, where it is consistent with its fiduciary duty, the Fund would follow the principles below:

- Incorporate ESG issues into investment analysis and decision-making processes - this would require to be done by the investment managers and monitored by the Fund.
- Be an active owner and incorporate ESG issues into ownership policies and practices - this will be mainly achieved by exercising voting rights and the engagement activity of managers.
- Seek appropriate disclosure of ESG issues by entities in which the Fund is invested - this will be achieved through investment manager engagement.
- Report on activities and progress. A six-monthly report will continue to be prepared for the Sub-Committee.

16 **CORPORATE GOVERNANCE**

The Fund will vote through its Fund Managers on all global security holdings in accordance with the recommendations of its voting consultants. Managers will be advised to use its best endeavours to vote in accordance with its voting guidelines.

17 **CLASS ACTIONS**

Both the Fund and its custodian monitor class actions in relation to any investments it has held. It will participate in these where any additional benefit can be achieved.

18 **COMPLIANCE**

The Pension Sub-Committee will take advice on general investment matters from the Executive Director of Corporate Services and external advisers as appropriate. The Pension Board will assist in securing compliance to regulations.

The Pension Investment Sub-Committee will review this Statement annually or sooner if there is a change in policy in any of the areas covered.

19 **SCOTTISH MINISTERS' GUIDANCE**

The Fund adheres to the six principles within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

APPENDIX A

INVESTMENT ROLES AND RESPONSIBILITIES

1. Introduction

The Fund pursues a policy of seeking enhanced returns whilst lowering risk through diversification of both investments and investment managers. In order to achieve these returns the Fund has delegated day to day investment decisions to a number of external investment managers. A management agreement is in place for each Investment Manager, which sets out the relevant benchmark, performance target, asset allocation ranges, and any restrictions, as determined by the Fund.

2. Tayside Pension Fund Sub-Committee is responsible for:

- Setting the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.
- Appointing, reviewing, and assessing the performance of investment managers, investment consultants, custodians and actuaries.
- Ensuring appropriate arrangements are in place for the administration of benefits.
- Ensure appropriate additional voluntary contributions arrangements are in place.
- Ensure adequate audit arrangements are in place.
- Prepare, maintain and publish the following:
    - Governance Compliance Statement.
    - Funding Strategy Statement.
    - Statement of Investment Principles.
    - Environmental, Social and Corporate Governance Policy.
    - Administration Strategy
    - Communications Policy
    - Treasury Policy and Strategy

3. Tayside Pension Fund Pension Board is responsible for:

- to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator in such other matters as the LGPS regulations may specify
- to secure the effective and efficient governance and administration of Tayside Pension Fund

4. The Executive Director of Corporate Services is responsible for:

- governance of the Fund
- implementation of Committee decisions
- committee training

5. The Investment Consultant is responsible for:

- advice on setting investment objectives and strategy
- advice on appropriate investment management structures
- advice on asset classes and investment vehicles
- assistance with investment manager monitoring
- assistance with investment manager selection, retention and termination
- benchmark advice
- advising on the appropriate content of Investment Management and other related agreements.

6. The Investment Managers are responsible for:

- portfolio management including individual decisions on purchase retention and sale of investments
- decisions on corporate actions and corporate governance (proxy voting)
- responsible investment activity including analysis and engagement with companies.

7. **The Global Custodian is responsible for:**
   - safekeeping of assets
   - servicing of assets including income collection
   - execution of transactions, corporate actions and proxy voting
   - record keeping and primary accounting
   - securities lending (if authorised)
   - cash management
   - performance measurement

8. **The Actuary is responsible for:**
   - measurement, monitoring, advice and information relating to the Fund’s liabilities and the relationship between its investment assets and liabilities.

APPENDIX B

TAYSIDE MAIN FUND - SUMMARY OF ACTUARIAL VALUATION AS AT 31 MARCH 2023

	£bn	£bn
Assets		4.34
Past Service Liabilities		
Active Members	1.71	
Deferred Pensioners	0.54	
Pensioners	1.67	
Value of Scheme Liabilities		3.93
Surplus		0.41
Funding Level (excluding 10% volatility reserve)		110%

	Employers Contributions (% of Payroll)
Primary Future Service Funding Rate	22.5
Monetary Adjustment	6.8
Total	15.7

APPENDIX C

Tayside Pension Fund - Target Future Asset Allocation		
Asset Class	**Current Allocation**	**Target Allocation**
Equities	70%	65%
Fixed Income	18%	13%
Property	12%	12%
Local and Alternative Opportunities	0%	10%

Benchmarks (effective from April 2024)

EQUITIES	FIXED INCOME	PROPERTY	Opportunistic
15.0%: FTSE All Share	15%: SONIA + 5.3%	100%: IPD All Balanced Property Funds Weighted Average Index	100%: 6% p.a. absolute return
19.3%: MSCI ACWI GD	35%: iBoxx Sterling non-gilt index + 0.5%		
31.4%: MSCI ACWI ND			
7.3%: FTSE AW North America			
2.8%: FTSE Developed Europe (Ex UK)	36%: ML Sterling Non-Gilts Index		
1.4%: FTSE Japan			
11.7%: FTSE All World			
0.6%: FTSE Developed Asia Pacific Ex Japan	14%: FTSE Index-Linked Over 5yr Index		
1.2%: FTSE AW Emerging Markets			
9.3%: Solactive L&G ESG Global Markets Index			

Revised benchmarks for individual mandates are developed as required:

Manager	**Asset Class**	**Weighting**	**Current Benchmark**	**Performance Target (3yr rolling)**
Fidelity	Global Equities (active)	22%	100% MSCI AC World ND Index	+ 2% pa (gross of fees)
Baillie Gifford Global Alpha	Global Equities (active)	12.5%	100% MSCI AC World GD Index	+ 2% pa (gross of fees)
Baillie Gifford UK	UK Equities (active)	7.5%	100% FTSE All Share Index	+ 1.5% pa (gross of fees)
Baillie Gifford Positive Change	Global Equities (active)	1%	100% MSCI AC World GD Index	+ 2% pa (gross of fees)
LGIM	Global Equities (passive)	27%	11% FTSE All Share Index 19% FTSE AW North America 7% FTSE Developed Europe (Ex UK) 4% FTSE AW Japan 30% FTSE All World 2% FTSE Developed Asia Pacific Ex Japan 3% FTSE Emerging Markets 24% Solactive L&G ESG Global Markets Index	+/- 0.5% p.a. (for 2 years out of 3)

Apollo	Multi-Asset Credit	2%	SONIA	+5.3% p.a. (net of fees)
LGIM	Buy and Maintain	4.5%	iBoxx Sterling non-gilt index	+0.5% p.a. (net of fees)
Fidelity	Fixed Income (UK)	6.5%	72% ML Sterling Non-Gilts Index 28% FTSE Index-Linked Over 5 Year Index	+ 0.65% pa (gross of fees)
Schroders	Property (UK)	12%	100% IPD All Balanced Property Funds Weighted Average Index	+ 0.75% pa
Partners Group	Diversified Alternatives	5%	6% p.a. absolute return	N/A
GSAM	Real Estate Credit	<1%	UK CPI + 9%	
Northern Trust	Securities Lending	Circa 70%	N/A	0.026% pa

APPENDIX D

STATEMENT OF INVESTMENT BELIEFS

This Statement has been designed to support the Fund in underpinning the investment decision-making process for the future, and act as a reference point for understanding why investment decisions have been, and are, made. This Statement should be viewed in conjunction with the Fund's Statement of Investment Principles, Funding Strategy Statement and Environmental, Social and Governance ("ESG") Policy.

- **There is a fundamental link between funding level and investment strategy**

Tayside Pension Fund exists in order to pay members pension benefits as they fall due, and in order to determine an appropriate investment strategy to meet the level of return required. The Fund thus believe that this fundamental link between funding and investment is crucial, and actuarial input is essential when setting investment strategy.

- **Clearly defined investment objectives are important for success**

Tayside Pension Fund appreciate the need to generate a sufficient level of investment return to meet objectives. However, the Fund also recognises that there are a number of potential investment risks that need to be understood and managed in order to provide an appropriate level of certainty and to ensure there is sufficient capital and liquidity to pay the Fund members' benefits as they fall due. The fund believe that clearly defined investment objectives is key in providing focus in implementing their investment strategy, and in doing so, assisting the Fund meet its long-term goals.

Investment strategy has a relatively long-term horizon in line with the Fund's liability profile

The Fund has a very long investment time horizon as a result of the Fund's liability profile. The Fund believe in applying long term thinking in order to seek and deliver long term sustainable returns, and in this, the Fund may justifiably hold some investments over many years in the beliefs that longer term investments have historically proven to generate more wealth than short term investments; and that investors are rewarded for holding certain illiquid assets and are therefore willing to have an allocation to such assets to take advantage of this illiquidity premium and comfortable, and as a result, the Sub-Committee are comfortable holding an allocation to these less liquid assets as part of a suitably diverse investment portfolio.

Whilst the Fund monitor and manage short term investment performance, the prime focus is on longer term investment horizons of up to 10 years and the investment performance over this longer period, in line with the Fund's long-term investment beliefs.

Strategic Asset allocation is the primary investment decision

Tayside Pension Fund believe that strategic asset allocation is the greatest driver of returns for the Fund and therefore understand that asset allocation is the most important investment decision. Manager and stock selection and portfolio monitoring are highly important but of second order to the strategic asset allocation decision in delivering value for money for all of the stakeholders in the Fund.

Diversification is important for managing risk and also results in more stable investment returns

Tayside Pension Fund believe that diversification across differing classes of assets reduces the volatility of returns and results in a better long-term risk adjusted return, which is to the benefit of all of the stakeholders in the Fund. As a result, the Fund invests across a broad range of asset classes (including, but not limited to equities, bonds, property, as well as less liquid opportunistic investments, as appropriate) and appoints a number of asset managers to reduce manager specific risks.

Risks should be appropriate, and be managed

Tayside Pension Fund acknowledge that in order to achieve the required level of returns required to support the affordability and sustainability of the fund that a certain level of investment risk is unavoidable, however this risk must be not be unnecessary, but be appropriate and in-line with long term investment objectives.

Equities are expected to generate strong investment returns over the long term

Tayside Pension Fund believe that over the long-term equities will deliver strong investment returns, and as a result the Fund retains a meaningful allocation to equities. The Fund believe that equities will drive total Fund performance and are therefore comfortable holding a material allocation to equities to help drive growth to meet benefit payments.

Active investment management can add value after fees and other costs

Tayside Pension Fund believe that, in certain asset classes, such as equities, carefully selected investment managers can add value, after fees and other costs, through active management. Because of this belief, the majority of the Fund's assets are actively managed. The Fund acknowledge that consistent outperformance is difficult to achieve and therefore dedicate time and effort in selecting and monitoring the performance of their asset managers. The Fund also appoints an investment advisor to provide assistance and guidance.

Fees and costs should be minimised wherever possible

Tayside Pension Fund believe that fees and costs should be minimised wherever possible as they reduce overall investment returns. Fees and other costs are regularly reviewed and renegotiated (as appropriate) to ensure optimal value for money and avoidance of unnecessary costs. The Fund evaluate investment performance net of fees and will only appoint an active manager who they believe can outperform net of fees. The Fund regularly engages with investment managers and undertakes procurement exercises to achieve the most competitive fees on behalf of the Fund.

It is important to invest responsibly

Tayside Pension Fund believe that managers should invest responsibly, incorporating all environmental, social and governance (ESG) factors which could not only have material financial effect on the Fund in terms of fund and its reputation. To ensure incorporation of ESG into investment decision making, the Fund require that all investment managers to be signatories to the United Nations Principals of Responsible Investment. The Fund has an ESG policy which is regularly reviewed, and which outlines a specific provision for the Fund's long-term ambition to completely divest from tobacco stocks, and the Sub-Committee expect the Fund's investment managers to adhere to this approach.

Responsible Stewardship and active engagement with companies is more effective in seeking to initiate change rather than divesting

Tayside Pension Fund is supportive of encouraging positive ESG practices within the companies that it invests in. The Fund tasks their investment managers to engage with companies to encourage positive ESG practices, and to report to the Fund on their engagement in relation to the following key areas of concern:

- Employee Care,
- Human Rights,
- Sustainability and the Environment.

The Fund use an independent voting advisory service, and as part of ongoing monitoring, the Fund requires the investment managers to report on their voting activity, as this reflects the Fund's commitment to encouraging best practice.

Governance and decision making is critical to success and should focus should be on the areas of greatest importance

Tayside Pension Fund seeks to avoid unnecessary complexity, where possible, to reduce costs, free up time and resources, and promotes focus on strategic decision making, such as asset allocation, where the greatest value is expected to be added. Complexity is only introduced to the investment structure where it is clear that it is expected to add value net of cost.

ITEM No …18………..

REPORT TO:	**PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD– 18 MARCH 2024**
REPORT ON:	**TAYSIDE PENSION FUND BUSINESS PLAN 2024/2025**
REPORT BY:	**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**
REPORT NO:	**85-2024**

1 PURPOSE OF REPORT

This report introduces the annual business plan for the Tayside Pension Fund.

2 RECOMMENDATION

The Sub-Committee are asked to note the information within the report and to approve the 2024/2025 Business Plan which applies to the administration and management of the Tayside Pension Fund.

3 FINANCIAL IMPLICATIONS

The costs of the Treasury and Investment and Pensions Administration section are contained within the overall Corporate Services Revenue Budget 2024/2025. Investment manager fees are charged directly to the Fund, as are actuarial and investment consultancy costs.

4 INTRODUCTION

The "CIPFA Pension Panel Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom". A Guide to the Application of the Myners Principles (December 2009) suggests that as one of the means of achieving effective decision making an annual business plan for the pension fund should be prepared and submitted.

This plan is prepared for the Pension Fund as a whole. This is over and above an individual Service Plan for the Financial Services Section as part of Corporate Service's overall planning process.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **8 MARCH 2024**

BUSINESS PLAN

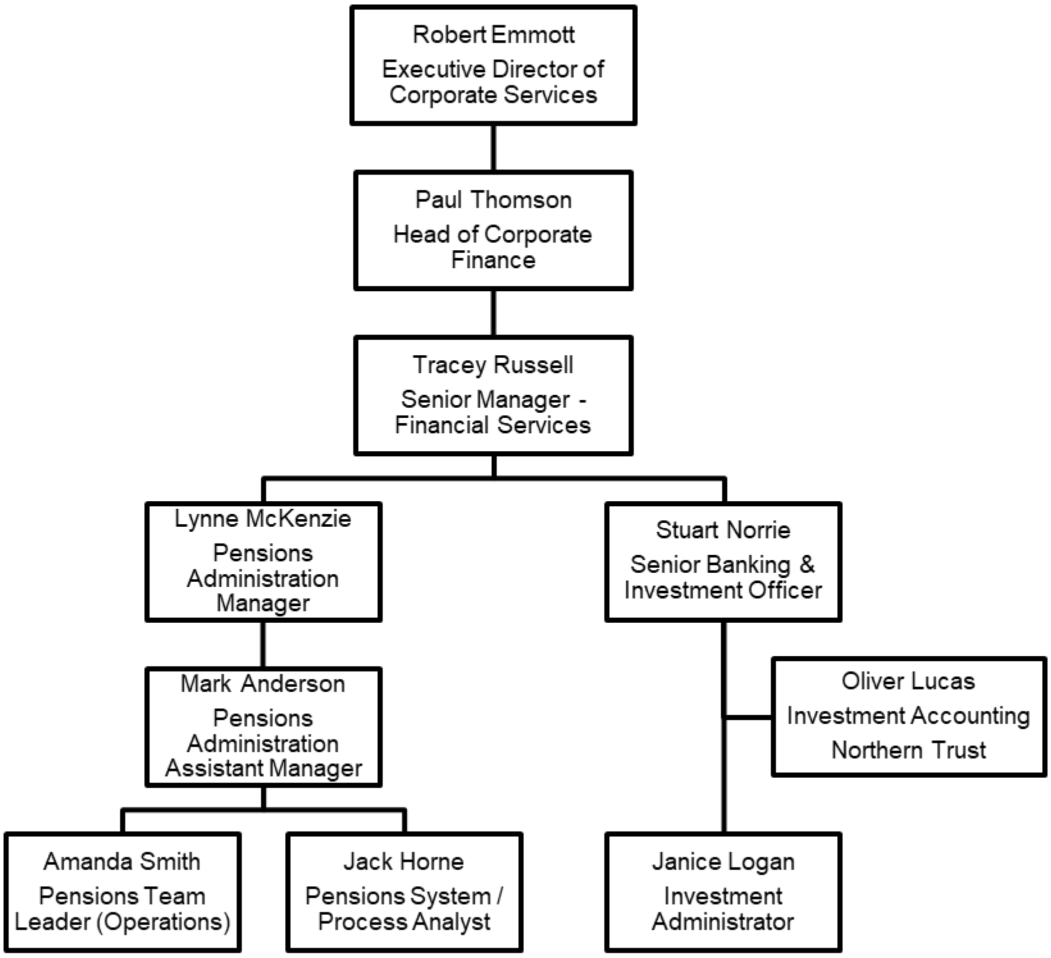
2024-2025

1 **INTRODUCTION**

In order to comply with "CIPFA Pension Panel Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme" Principle 1 - Effective Decision Making it is necessary that an annual business plan is prepared for the Funds. This document together with the Statement of Investment Principles will set out the investment philosophy and priorities for the Funds.

2 **STRUCTURE**

The Pension Fund management structure lies within Financial Services as part of Dundee City Council's Corporate Finance function, the structure is detailed below:



An analysis of the Fund's management costs can be found in Appendix 1.

The Fund are facing an increasing number of new additional legislative and governance requirements in the near future. This, coupled with recommendations of Internal Audits, have highlighted that there is a requirement to review the structure, roles and resources of the Fund to ensure that the Fund is capable of meeting these new challenges. Over the course of 2024/25 this full review will be undertaken as a priority and proposals will be brought to Pensions Committee and Board in the first part of the year, and if approved, with full implementation will follow.

3 **INVESTMENT**

As stated in the Statement of Investment Principles (SIP) the objective of the Fund is to be 100% funded and to that end individual performance targets are set for each manager. These are stated in the SIP. However, these targets can only influence the asset side of the valuation and the liability side also affects the funding level. This is considered more fully in the Funding Strategy Statement (FSS).

Whilst over 2023/24, the Fund has been transitioning assets to reach target asset allocation, there are still further transitions to be carried out in 2024/25, namely the remaining 50% of allocation to alternative assets and the further transitioning of existing equities to ESG alternatives. These exercises will be undertaken throughout the year if market conditions allow. Following the outcome of the 2023 actuarial valuation, a review of the Fund's investment strategy will take place in 2024/25, with any recommendations actioned when market conditions favour.

4 **FINANCIAL POSITION**

At 31 December 2023 the value of the Fund was approximately £5,172.5m. Accounts for the year to 31 March 2023 are shown in Appendix 2. It is possible that investment manager fees will be subject to increase due to their linkage with the value of funds under management.

Most employer contribution rates are 15.7% of payroll for the 3-year period from 2024/2025 to 2026/2027. There are three employers who pay higher contribution rates due to this scheme being closed to new entrants.

In respect of Fund outflows, it is possible that Lump Sum payments may increase as some employers in the scheme continue to offer Early Retirement Schemes.

5 **PERFORMANCE MANAGEMENT**

Investment Performance Measurement will continue to be provided by Northern Trust, the Fund's custodian.

Investment and administration costs will continue to be benchmarked against national performance indicators and also against information collated by the LGPS Scotland Investment & Governance Group.

The Fund's performance will also be subject to periodic review by both internal and external audit.

6 **INTERNAL AUDIT**

PricewaterhouseCoopers (PwC) are the Fund's Internal Auditors. During 2023/24, audits undertaken reviewed Pension Administration and Liquidity Management, as well as a workshop on Environmental Social & Corporate Governance (ESG). The recommendations made have been accepted and are in the process of implementation now and will be complete during 2024/25.

Audits planned for 2024/25 are as follows:

- Investment Strategy - Review of the design of key controls and governance that lead to advising on and setting the investment strategy.
- Outsourcing / 3rd Party Management - Review of the design and operating effectiveness of key controls in respect of third party management.
- Risk Management and Regulatory Compliance – Review of the design and operating effectiveness of key controls in respect of the Fund's risk management framework.

7 **ACTUARIAL SERVICES**

These have been provided from 1 July 2004 by Barnett Waddingham. The procurement exercise planned for 2022/2023 has been subject to delay as a result of operational priorities, and will begin in March 2024.

8 **INVESTMENT CONSULTANCY**

Investment advice is currently provided by ISIO Ltd (formerly KPMG). This contract began on 2 July 2018 following a tendering exercise using the new LGPS Procurement Framework. The period of the contract is for an initial 3 years with an option to extend for a further 1 year plus 1 year, based upon satisfactory performance. This option has been actioned. ISIO provide an annual report to the sub-committee each March (covering the managers and fund performance for the previous full calendar year) and should attend quarterly meetings with fund managers and provide regular advice to the Council's Officers. They will be undertaking a review of investment strategy in 2024/25 and will continue to assist with the implementation of their recommendations.

9 **FUNDING STRATEGY STATEMENT**

This is produced annually following consultation with the actuary and employers. The funding strategy has been subject to revision following the 2023 valuation to specifically accommodate changes in employer status, and cessation valuation criteria.

10 **KEY MEASURES AND TARGETS**

These are summarised in Appendix 3.

11 **ADMINISTRATION**

Online employer and member services

- I-Connect - This online portal provides employers with a secure, swift and efficient way to issue the essential information required for the Fund to ensure accuracy of member records.

  In 2023/24, employers were given deadlines to onboard to IConnect for all monthly returns, and the staff have been providing support and guidance to comply. There are a small number of employers (although large in terms of membership) still non-compliant, and assisting them to overcome their issues will be a priority in the early part of 2024/25. Further enhancements to the IConnect service was also introduced to employers, allowing them to upload completed documentation for their members along with their IConnect submissions. The Fund will be working with employers in 2024/25 to fully implement as a priority to improve process times for members and efficiencies for the employer.

- Member Self Service – Take up of the member portal has been very good since its implementation in 2020/21, however the aim is to continuously improve on the initial uptake. Over 2023/24 the Fund introduced a process for all new scheme members to register for the service as part of initial communication. In addition, prior to the issue of Annual Benefit Statements, a further onboarding exercise was undertaken. This exercise will be undertaken again in 2024/25, and the Fund hopes to undertake payslip exercises with employers in the year to further increase uptake.

McCloud / Sargeant Judgement

Following the publication in February 2021 of the UK Government approach to remedying the age discrimination found in the 2015 pension reforms. During 2023/24 the Fund worked with employers to ensure that all data required to implement the remedy was captured, with a submission deadline being set for 31st March 2024. Whilst the Fund are in receipt of a number of returns, there are still some outstanding, and the Fund will be engaging with these employers to ensure that they prioritise this on behalf of their members.

The Local Government Pension Scheme (Remediable Service) (Scotland) Regulations 2023 were laid in the Scottish Parliament and came into force on 1 October 2023, however Funds had to wait on guidance on prioritisation of cases from The Scottish Public Pensions Agency and from The Government Actuary Department. The last of this guidance was received on 5th March 2024, and only following this can the Fund begin to address cases.

During 2023/24 additional functionality was added to the suite of software products used by the Fund to allow detailed analysis of member data and inbuilt validation which will assist in highlighting any inconsistencies in data received from employers prior to processing the McCloud caseload. In 2024/25 McCloud remedy processing will be integrated into operational workload and allocation as well as the commencement of the additional requirement for assessment and remedy of past cases in line with the issued prioritisation guidance.

GMP Rectification

During 2023/24, phase 2 was fully completed. This involved the closure of over one thousand complex case queries where there were discrepancies between HMRC records and Fund records. These cases now have the appropriate GMP values applied to individual records.

During 2024/2025 the final stage (phase 3) will be undertaken for the identified cases (circa 500) which require rectification. This will require each affected record to be amended to ensure that either the correct GMP and excess pension is held on the administration system with no change to the total pension, or if the total pension is outside the rectification tolerance, a change to the total pension will be required. This can mean either an increase or decrease to a member's current pension benefit, however, if a decrease applies, there will be no impact to the pension in payment as stipulated in the guidance from SPPA.

As part of the Phase 3, a certification for each case needs to be applied to confirm that Reconciliation and Rectification (where applicable) has been completed along with details relating to any rectified GMP amounts, to ensure a robust audit trail will be placed on each member's record.

Pensions Dashboard

Pensions dashboards are digital services (apps, websites or other tools) which savers will be able to use to see their pension information in one place. This includes information on their occupational pension schemes such as the Local Government Pension Scheme. Dashboards aim to help members plan for retirement by finding their various pensions and reconnecting them with any lost pension pots and understanding the value of their pensions in terms of an estimated retirement income. The unconfirmed go live date for this requirement is September 2025, however, this may be subject to further change.

To continue with the Fund's preparation for this, during 2023/24, the Fund contracted with its existing software provider to utilise its Pensions dashboard ISP products. This will provide the Fund with a seamless connection to the Dashboard infrastructure. This product will assist in preparation in areas such as data readiness, matching rule assessment, data analytics and compliance status.

The preparation of data for dashboard connection commenced during 2023/24 with the introduction of the data cleansing toolkit. The toolkit is made up of an address and mortality screening service to ensure that the data held on all records (active, deferred and pensioner) are ready for matching with dashboard requests. During 2024/25, following testing, these services will be fully launched. Further information on the overall dashboard programme will be submitted to Sub-Committee quarterly.

12 TREASURY MANAGEMENT

Dundee City Council provides a treasury management service for the Pension Fund, these costs are incorporated within a service level agreement with the administered authority.

APPENDIX 1

Three Year Analysis of Tayside Pension Funds Costs

	2022/23 Actual £000	2023/24 Estimate £'000	2024/25 Budget £'000
Administrative costs *			
DCC Management charge	1,310	1,376	1,444
System costs	297	366	300
Audit fees	66	100	100
Actuary	14	30	20
Other expenses	65	80	90
	1,752	**1,952**	**1,954**
Oversight and Governance costs **	**115**	**121**	**127**
Investment Management expenses			
Management fees	9,048	9,200	9,500
Transactions costs ***	765	2,000	950
Custody fees	68	75	80
Performance monitoring service	25	26	27
Investment consultancy ***	28	135	40
	9,934	**11,436**	**10,597**
Total	**11,801**	**13,509**	**12,678**

* Administration costs are a combination of direct and indirect costs. Indirect costs, those borne by Dundee City Council, are a management charge for services provided by the administering authority. Direct costs include pension administration system, administration consultancy, audit fee, actuary, training and other fund expenses.

** Oversight and Governance costs relate to support costs incurred by the administering authority, namely Corporate and Democratic Core.

*** Transaction cost and Investment Consultancy costs have increased during 2023/24 due to transition of GSAM bond portfolio into three new investment mandates.

TAYSIDE PENSION FUND - FUND ACCOUNT

2021/2022 £000		2022/2023 £000
	Dealings with Members, Employers and other directly involved in the fund	
81,241	Employers' contributions	84,524
28,363	Employees' contributions	30,210
6,221	Transfers in from other pension funds	3,954
115,825		118,688
(125,706)	Benefits	(132,928)
(5,757)	Payments to and on account of leavers	(5,076)
(131,463)		(138,004)
(15,638)	Net Withdrawals from dealings with members	(19,316)
(1,968)	Administration Expenses	(1,867)
(17,606)	**Net Withdrawals from dealings with Members including Administration Expenses**	**(21,183)**
	Returns on Investments	
79,440	Investment Income	84,205
195,064	Change in Market Value of Investments	(315,012)
(10,494)	Investment Management Expenses	(9,934)
264,010	**Net Returns on Investments**	**(240,741)**
246,404	**Net increase in Fund during the year**	**(261,924)**
4,849,572	**Opening Net Assets of the scheme**	**5,095,976**
5,095,976	**Closing Net Assets of the scheme**	**4,834,052**

The Fund Account shows payments to pensioners, pension contributions from employers and scheme members, and the income, expenditure and change in market value of the Fund's investments.

TAYSIDE PENSION FUND NET ASSETS STATEMENT

2021/22 £000		2022/23 £000
5,124,493	Investment Assets	4,836,157
(38,025)	Investment Liabilities	(17,965)
5,086,468	**Total Net Investments**	**4,818,192**
13,696	Current Assets	20,464
5,100,164		4,838,656
(4,188)	Current Liabilities	(4,604)
5,095,976	**Net assets of the fund available to fund benefits at the end of the reporting period**	**4,834,052**

Robert Emmott BSc CPFA
Executive Director of Corporate Services
Dundee City Council
18 December 2023

The Net Asset Statement represents the value and liabilities as at 31 March 2023 (excluding liability to pay pensions).

The Unaudited Accounts were issued on 26 June 2023 and the Audited Accounts were authorised for issue on 18 December 2023.

APPENDIX 3

KEY MEASURES AND TARGETS

	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual	2022/23 Actual	Target
1 Pension Fund Administration						
(i) Cost per member	£36.73	£34.55	£28.67	£34.63	£31.64	£35.00
2 Pension Fund Investment						
(i) Annual Investment performance relative to benchmark	-0.21%	+0.29%	+8.13%	-5.87%	-1.26%	+1.0%
(ii) Funding level of Pension Fund	107%**	109%**	109%**	109%**	110%**	110%**

** does not include 10% volatility reserve.

3 Investment Managers — Performance Target (on rolling 3-year basis)

Fidelity	100% MSCI AC World Index +1.5% pa (gross of fees)
Baillie Gifford Global	100% MSCI AC World Index +1.75% to 2% pa (net of fees)
Baillie Gifford UK	100% FTSE All World Index +1.75% to 2% pa (net of fees)
Schroder Property	100% IPD All Balanced Property Funds Weighted Average Index +0.75% pa
Goldman Sachs	Yield to maturity of 3%+1.25% pa (gross of fees)
LGIM	100% FTSE AW Index +/-0.5%pa (2 out of 3 yrs)

4 Asset Allocation

Tayside Pension Fund - Target Future Asset Allocation		
Asset Class	**Current Allocation**	**Agreed Allocation**
Equities	70%	65%
Fixed Income	18%	13%
Property	12%	12%
Local and Alternative Opportunities	0%	10%

5 Service Providers

Target – 2024/25

Actuarial Services	To continue to monitor funding levels of the Fund and provide actuarial accounting reports to employers as required.
Investment Consultancy	To continue to monitor performance and fees of managers, and advise as required; remain vigilant of asset allocation in relation to required returns; and to support the fund in building the local and alternative opportunities portfolio.