City Chambers
DUNDEE
DD1 3BY

20th June, 2024

Dear Colleague

I refer to the agenda of business issued in relation to the MEETING of **the JOINT MEETING of the PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD** to be held remotely on Monday, 24th June, 2024 and now enclose the undernoted item of business which was not received at the time of issue.

Yours faithfully

GREGORY COLGAN

Chief Executive

**9 TAYSIDE PENSION FUND ANNUAL REPORT AND ACCOUNTS 2023/24 - Page 1**

(Report No 188-2024 by the Executive Director of Corporate Services, copy enclosed).

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**ITEM No …9………..**

**REPORT TO:** **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 24 JUNE 2024**

**REPORT ON:** **TAYSIDE PENSION FUND UNAUDITED 2023/2024 ACCOUNTS**

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

**REPORT NO:** **188-2024**

## 1 PURPOSE OF REPORT

To provide some additional commentary on the unaudited Annual Accounts 2023/24 which are being submitted to the Committee along with this report.

## 2 RECOMMENDATIONS

It is recommended that the Committee:

- notes the contents of this covering report
- notes the unaudited Annual Accounts which have been submitted along with this report in Appendix A
- instructs the Executive Director of Corporate Services to arrange for the unaudited Accounts to be signed as necessary
- instructs the Executive Director of Corporate Services to submit the Annual Accounts to the Fund's external auditor

## 3 FINANCIAL IMPLICATIONS

None.

## 4 MAIN TEXT

4.1 The relevant statutory provisions regarding the preparation of the Fund's Accounts are contained in the Local Authority Accounts (Scotland) Amendment Regulations 2014. Section 8 of these regulations requires that "... all the accounts of the local authority are made up and balanced as soon as practicable after the year end of each financial year and that sufficient copies of an abstract of the said accounts for each financial year are prepared ... and submitted to the authority and submitted to the appointed Auditor not later than 30 June in the next financial year...".

4.2 As in previous years the Annual Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the Code). There are no significant changes included within the 2023/2024 Code, that impact upon the Fund's Accounts.

4.3 Tayside Pension Fund net assets was £5.494bn as at 31 March 2024, this reflected an increase of £659.5m or 13.64% on the equivalent value at 31 March 2023.

4.4 Copies of the enclosed Annual Accounts will now be sent to the Fund's appointed external auditor (Rachel Browne, Audit Director, Audit Scotland) to commence the audit of the Accounts. The outcome of the audit will be reported back to the Pension Sub-committee and Pension Board once completed.

## 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 are in agreement with the contents.

7 **BACKGROUND PAPERS**

None

**ROBERT EMMOTT**
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES** **20 JUNE 2024**

Unaudited

# Annual Report and Accounts

## 2023/24

Tayside Pension Fund

*Administered by Dundee City Council*

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## Management Commentary



## Governance



## Financial Statements



## Funding



## Investment



## Pension Administration

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## ABOUT THE FUND

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

As at 31st March 2024, Tayside Pension Fund had investment assets of c.£5.4billion, and a membership of over 56,900 across 41 participating employers. These participating employers include 3 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.

There are approximately 100 LGPS funds in the UK, with 11 of these in Scotland. Tayside is the 4th largest of the 11 Scottish LGPS funds in asset size. The LGPS is a multi-employer defined benefit scheme, whose benefits up until 31st March 2015 was based upon final salary. Since this date, benefits are based upon career average.

The rules by which the LGPS scheme operates by are set out in the Local Government Pension Scheme (Scotland) Regulations which are Scottish Statutory Instruments (SSIs). Separate regulations set out scheme benefits, investment and governance requirements.

**Foreword by the Executive Director of Corporate Services**

The Annual Report of Tayside Pension Fund provides information on the investments and financial statements of the Fund. It also informs our members, employers and other interested stakeholders more about the Fund's activities and performance throughout the financial year, and as the Fund's responsible officer, I'm delighted to present the Annual Report and Financial Statements for 2023/24.

Looking at the geo-political and economic events of the last twelve months, and the potential impact on financial markets, we remain cautious in the short-term despite the financial performance of the Fund, and want to reinforce the Fund's commitment to focus of consistency, sustainability and resilience.

Whilst maintaining a long-term view at a Fund level, the marked upsurge in technological advances in both medicine and Artificial Intelligence seen this year have been beneficial to the fund, but also make us curious of the impact that these will have on everyday lives, and how businesses of the future will operate, including the pensions world.

Having taken on my role in the early days of the pandemic, I'm mindful of the rapid changes and adaptations that the Fund implemented in order to ensure continued service delivery to members and employers; but recognise that there is need for further changes to our operating platform as a result of increased requirements introduced by legislation and regulators.

This year has seen the publication of the Pensions Regulator's Single Code of Practice, as well as the initiation of the age discrimination rectification exercise (McCloud) and the impending introduction of Pensions Dashboards as well as others, the Fund now needs to assess the suitability of existing governance arrangements, and over the year, the Fund Officers have been working with their Auditors and other advisors who have been undertaking analysis across the key areas of governance, administration and investment. Over the coming year, the Fund Officers are focussed on improvements and developing a revised structure and operating model. Myself, the Sub-Committee and the Board are committed to providing support and scrutiny in order to ensure stability and that the Fund is best positioned to deal with the unknown future challenges that continue to be encountered.

Lastly, after what has been yet another challenging year for the Fund, I'd like to take the opportunity to thank the Fund officers and staff for their continuing dedication and commitment. Their efforts are key to maintaining this strong and stable Fund, and I continue to enjoy working with them, the Sub-Committee, and Board in the coming year, providing high-quality services to both the members and employers of the Fund.

**Robert Emmott**
**Executive Director of Corporate Services**

**Report by the Chair of the Pension Sub-Committee**

As administering authority of Tayside Pension Fund, Dundee City Council has delegated the responsibility for all matters relating to asset investment and governance of Tayside Pension Fund to its Pension Sub-Committee. This Sub-Committee consists of 6 elected members from Dundee City Council, and it is their role, and mine, as its Chair to ensure the Fund meets its primary objective of providing members' pension benefits on retirement; and to ensure that the Fund complies with Local Government Pension Scheme Regulations and all other relevant legislation.

It has been a year dominated by global inflationary pressures and recessionary fears, as central banks continued to fight to bring inflation back to target by raising interest rates. The latter part of the year saw a stabilising of inflation, and with it, the likelihood of rate cuts. This strengthened financial markets as investors grew increasingly hopeful that central banks would be successful in engineering a 'soft landing' for the global economy. Against this backdrop of growing investor sentiment, the Fund asset value also rose to £5.494bn by end of March 2024.

Whilst these are encouraging signs, we cannot overlook the continuing and increasing levels of geo-political turmoil and the potential impacts on financial markets; and the Pensions Sub-Committee and Board are committed to providing effective stewardship in ensuring that the Fund maintains a long-term strategic focus amongst this turbulence.

With this in mind, I am pleased to inform that during the year the Fund appointed two new investment managers. This sees the first significant investment in alternatives for Tayside Pension Fund, and the members of Sub-Committee and Board will be monitoring this initial phase, as well as further evolution of existing investment mandates.

The Fund also underwent the triennial actuarial valuation, and although the last three years have been extremely challenging for investments, the Fund has seen a further improvement in funding levels. With the focus firmly on long term sustainability, the Sub-Committee have been fortunate to have been able to in turn approve the reduction of the common rate of employer contribution to 15.7% of employee payroll. This is effective from 1st April 2024 for a period of three years, and will assist in reducing the financial burden on pension fund employers in providing pensions to their staff.

Although I have no doubt that the Fund will continue to face challenging times ahead, I continue to enjoy working with my colleagues on the Sub-Committee and Pension Board, as well as the officers and staff, and I look forward to supporting them in the year ahead and thank all officers and staff for their continued commitment to Tayside Pension Fund.

**Bailie Willie Sawers**
**Chair of Pension Sub-Committee**

**Report by the Chair of the Pension Board**

The role of the Pensions Board is to ensure compliance with the various legislative requirements of Local Government Pension Schemes, and also the requirements of the Pensions Regulator. Representing both employers and members, the Board undertakes a vital role in helping to ensure the correct governance and functioning of Tayside Pension Fund.

Having been a Pension Board member since its introduction, I have experienced the evolution of the governance environment and the ever-growing requirements as a result. Whilst providing stakeholders with increased transparency, to those responsible for the management and oversight of the fund, these additional responsibilities pose continuous challenge and obstacles that have to be overcome to achieve successful delivery of the outcomes desired. I would like to recognise the efforts of the staff and Officers, as well as my Board and Sub-Committee Colleagues in their continuing dedication to their sound governance of the Fund.

Throughout the year, the Board has been able to gain reassurance from internal audits undertaken of compliance and good practice in respect of the operational areas of Pension Administration and Liquidity Management, as well as recommendations for improvements, the implementation of these, the Board will monitor.

Environmental Social & Corporate Governance (ESG) standards have become incredibly valuable as stakeholders seek more accountability and transparency. Through the year, the Fund has had a specialist review undertaken to consider the current policy and practices, and highlight areas for improvements. Both myself and my colleagues on the Pensions Board are eager to see the impact of these changes.

With the publication of The Pensions Regulator Single Code of Practice (setting out their expectations of the conduct and practice for compliance), The Board are reassured that the Fund have been proactive in having already undertaken a compliance workshop, in order to highlight areas for changes required.

The Board remains extremely aware of these challenges as well as others that the LGPS faces in the near future, and we will continue to ensure that we work proactively with the Pension Sub-Committee and Fund officers to ensure compliance and best practice wherever possible.

As the role of Chair passes annually, I would again like to take this opportunity on behalf of the Board, to express our gratitude to the Officers and staff of the Fund, and we look forward to working together in the coming year.

**Arthur Nicoll**
**Chair of Tayside Pension Board**

**MANAGEMENT COMMENTARY**

## Introduction

The Annual Report has been prepared in accordance with the Code of Practice on Local Authority Accounting for the United Kingdom 2023/24 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector, and the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003. It is intended to keep members, employers and other interested stakeholders informed about the administration and performance of the Local Government Pension Scheme (LGPS) Fund that Dundee City Council is responsible for administering. Since the repatriation of Tayside Transport Fund back to the main fund on 30th June 2017, the funds have been managed as one entity.

## Purpose and Aims

The purpose of the Fund is to receive monies in respect of contributions, and invest appropriately in order to pay out the required monies in respect of Local Government Pension Scheme (the Scheme) benefits.

In order to achieve this, the fund aims to ensure that:

- sufficient resources are available to meet all liabilities as they fall due;
- employer contribution rates to be kept as nearly constant as possible and at reasonable cost;
- employer's liabilities are managed effectively;
- income from investments is maximised within reasonable risk parameters

## Policies, Strategies & Objectives

The primary objective of 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. In order to achieve their objectives, the Fund have policies and strategies which are agreed by the Pension Sub-Committee and set out in their policy and strategy documents.

The following existing investment policies and strategies underwent review over the year:

- Risk Management Policy & Strategy
- Annual Governance & Governance Compliance Statement
- Environmental, Social and Corporate Governance Policy
- Treasury Management Policy & Strategy
- Statement of Investment Principles
- Funding Strategy Statement
- Administration Strategy
- Communications Policy
- Procurement Policy

Further information can be found at our website:

https://www.taysidepensionfund.org/resources

**2023/2024 Events and Activities**

**Investment**

In order to achieve further diversification and investment in alternative asset classes, the Fund officers and advisors undertook a large-scale procurement exercise to seek appropriate investment managers. Further recommended strategic asset reallocations were made to the Fund's bond portfolios, and the procurement exercise was expanded to accommodate.

The outcome of this exercise resulted in the appointments of Partners Group (Direct Private Markets), Apollo (Multi-asset Credit), and LGIM (Buy & Maintain) in December 2023. These investments were funded by the termination of the GSAM Bond mandate and rebalancing of other portfolios.

The asset transitions were undertaken in February and March, prior to the end of the financial year.

**Changes to Regulation / Legislation**

The following provides a summary of the legislation published in 2023/24:

| | |
|---|---|
| SI2023- 270 | The Guaranteed Minimum Pensions Increase Order 2023 |
| SI2023- 338 | The Pension Increase Review Order 2023 |
| SI2023- 232 | The Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Fund Payments) Regulations 2023 |
| SI2023- 252 | The Public Service Pensions Revaluation Order 2023 |
| SI2023- 266 | The Social Security Revaluation of Earnings Factors Order 2023 |

Further details and links to the above is provided within the Administration Section.

**Consultations**

- McCloud remedy in the LGPS – Supplementary issues and scheme regulations

The consultation sought to gather the views on the supplementary 'McCloud' issues and the updated draft LGPS (Scotland) (Transactional Protection Remedy) regulations 2023. The change would be put in place to ensure consistency when applying the underpin protection to members.

**I.T. Developments**

- I-Connect

During the year, the team continued to work with employers to increase usage of the system and functionalities. Communication is ongoing with some employers to assist them with undertaking full operational use.

- Member Self Service

All new starters into the fund are now provided automatically with MSS joining instructions from their first communication, along with details on the right to opt out receiving communications in this format if they wished to do so. The system is utilised by members once registered to update personal details, receive communication from the fund and project calculations. By the end of year, 15,526 individual users were registered.

- Contact Centre

The contact centre launched in 2022 and has continued this year to provide effective customer service to members and record the number a high call volume being received.

- Altair Database Server upgrade

During the year, the servers upon which the Altair databases are held were upgraded.

**Training, Development and Communication**

- Pension Sub-Committee, Board, and Officer training offered throughout 2023/24:

| | |
|---|---|
| Funding | Implications of the 2023 Actuarial Valuation<br>What the valuation is telling us about the LGPS |
| Investment | Economic overview and implications for the LGPS<br>How to invest in a more volatile and inflationary environment<br>Opportunities and threats in private debt markets |
| ESG | Applying carbon metrics to your fund<br>Does social focus make investment sense, and can you measure it?<br>The need for nature: Demystifying natural capital<br>Carbon analysis in multi-asset credit<br>Improving member engagement |
| Governance | The role of trustee in the pension fund |
| Administration | Administration issues – What's on the horizon? |

- Staff Training

The following training was provided to staff:

| Topic | Provider | Training method |
|---|---|---|
| I-Connect – Refresher training | In-House | Face to face & via MS Teams |
| Member Self Service– Refresher training | In-House | Face to face & via MS Teams |
| GDPR | Dundee City Council | E Learning |
| Pension Dashboards | Aquila Heywood (system provider) | Webinar |
| Change in legislation (McCloud) | | |
| Annual Benefit Statements | | |
| System Updates | | |
| McCloud | Local Government Association | via MS Teams |
| | Aquila Heywood (system provider) | Training delivered via MS Teams |
| Annual Allowances | | |
| Insights (system provider's pension dashboard system) | | |

- Employer / Members Sessions

The following sessions were held online over the year:

| Employer | Topic |
|---|---|
| All Employers | Employers Forum was held via MS Teams. The topics covered were Provisional Update on Valuation, Iconnect Plans and future updates, monthly contributions, Pension Increase and McCloud. |
| PKC | Q&A session via MS Teams with Social Work staff (care home based) |
| Employers | Employers provided with topic specific ad hoc Microsoft Teams sessions as requested to discuss matters as they arose during the year. |
| Culture PKC | New payroll provider had been put in place, a meeting was held to cover Iconnect, employee and employer contributions, AVC payments. |

| | |
|---|---|
| Members | Ad hoc MS Teams sessions run as and when required to fully meet the needs of the members. Sessions were held on such topics as annual allowance, retirement and transfers queries. |

**Working Arrangements**

Staff continue to work within the hybrid working model where they work flexibly between home and office. To enable an effective service delivery to members, face to face appointments are available at Dundee House along with operating the MS Teams function for online appointments.

Priorities remain in line with TPR guidance with the processing of pensions, death benefits and payments to ensure that difficult circumstances are not exacerbated by unnecessary delays. We continue to support any employers who are experiencing service disruption and financial challenges, offering flexible arrangements in-keeping with their circumstances and legislation.

**Fund Update**

**Membership**

The Local Government Pension Scheme is voluntary and is open to all employees of the Scheduled and Admitted Bodies. A list of Tayside Pension Fund's scheduled and admitted bodies can be found on page 114 with membership totals shown below -

| | 31 March 2023 | 31 March 2024 |
|---|---|---|
| Contributing Members | 18,912 | 18,765 |
| Pensioners | 18,008 | 18,645 |
| Deferred Pensioners | 11,427 | 11,774 |
| Undecided or Frozen | 7,235 | 7,721 |
| | 55,582 | 56,905 |

**Membership Funding**

The Funds are financed by the contributions made by members and their employers as well as income earned from the investment of the Funds' monies.

The employees' contribution levels are tiered based on a percentage of pensionable pay. Contributions are made by active members of the Fund in accordance with the LGPS (Scotland) Regulations 2014 and range from 5.5% to 12.0% of pensionable pay. Employer contributions are set based on triennial valuations undertaken by actuaries in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014. The employers' contribution levels are reviewed every three years by the Funds' actuaries as part of their actuarial valuation of the Fund.

Paying due regard to the Fund's Funding Strategy whilst maintaining consistency of rate, solvency of the Fund, and long-term cost efficiency; as at 31st March 2020, the Fund's actuary, Barnett Waddingham recommended that the common employer contribution for active employers remain at 17% for the period to 31st March 2024, however, following the triennial valuation as at 31st March 2023, they have recommended that the common contribution rate for employers be reduced to 15.7% for the period of 1st April 2024 to 31st March 2027.

**Performance**

- Fund Investment

The current investment strategy ensures that investment performance is effectively managed and monitored by the governance arrangements, where decisions are delegated to the Pension Sub-Committee of the City Governance Committee. Investment decisions are made based on advice from Council Officers and professional external advisers. These decisions are scrutinised by the Pension Board who meet with the Pension Sub-Committee on a quarterly basis.

The strategic asset allocation of funds is as follows (following the Investment Strategy in Review approved on 26th June 2021):

| Strategic Allocation | % | Allocation 31 March 2024 | % |
|---|---|---|---|
| Equities | 65% | Equities | 72.8% |
| Bonds | 13% | Bonds | 13.1% |
| Property | 12% | Property | 9.4% |
| Alternatives | 10% | Alternatives | 4.7% |

In the year to 31 March 2024, the Fund ended 1.45% behind benchmark, with outperformance largely across all portfolios except growth style equity portfolios, that have had a mixed year. Although financial markets experienced gains over the period, they continue to be extremely volatile. Over the year, the fund more than regained the losses of the previous year, and rose to £5.49bn from £4.8bn by 31 March 2024. Whilst the annual and longer-term performance are above benchmark, the medium 3-year term remains marginally lagging. Individual portfolio performance is detailed further within the Investment Section of the report.

- Administration

Pension administration continues to endure challenges with rising task volumes and ongoing training requirements to enhance knowledge and skillset within the team. The team continue to work closely with employers to provide support and address operational needs.

In compliance with The Pensions Regulator's Code of Practice, procedures and documentation are in place for logging and reporting breaches. Breaches are logged internally and if assessed to be material, as was the case of processing delays in respect of deferred benefits information, are required to be reported to the Regulator. During the financial year, there were no material breaches encountered.

Further information can be found at our website: Resources | Tayside Pension Fund

**Risk Management**

- Risk Management Policy & Strategy

In 2021, an internal audit review of Risk Management and Regulatory Compliance Review was undertaken, and recommendations made which resulted in a revised policy and strategy being approved in June 2022.

The purpose of the Policy and Strategy is to effectively mitigate risks which may otherwise impact on achievement of the Fund's objectives, by implementing comprehensive risk management arrangements. These arrangements include, among others: development and maintenance of comprehensive risk registers; setting out of responsibilities for the management and escalation of risks; and responsibility for regular review and updating of Policy and Strategy.

The Policy and Strategy of Tayside Pension Fund have been framed in line with that of the administering authority, in that the recognition of the requirements for effective corporate governance and the benefits of risk management as an organisational management tool. This will assist the Fund in ensuring that risks which may impact on the achievement of objectives are effectively managed.

Further information can be found at our website
https://taysidepensionfund.org/resources//

The following summarises the key risks which are monitored and presented quarterly:

- Failure to process pension payments and lump sums on time
- Failure to collect and account for contributions from employers and employees on time
- Insufficient funds to meet liabilities as they fall due
- Inability to maintain service due to loss of main office, computer system or staff
- Loss of funds through fraud or misappropriation
- Employers unable to participate in scheme

- Significant rises in employer contributions due to poor/negative investment returns
- Failure of global custodian
- Failure of Investment Manager
- Equity Risk
- Failure to comply with changes to LGPS regulations and other new regulations / legislation. Specifically:
    - GMP
    - McCloud
    - Pensions Dashboard
- Failure to comply with governance best practice. Specifically:
    - TPR New Draft Code of Practice
    - TPR Good Governance project outcomes
- Failure to provide quality service to members
- Failure to hold personal data securely
- Cybercrime
- Failure to keep pension records up-to-date and accurate
- Lack of expertise on Pension Committee, Pension Board or amongst officers
- Over reliance on key officers
- Failure to communicate adequately with stakeholders
- Employer Covenant Risk
- Risks in relation to use of 3rd party service providers
- Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD)

Quarterly risk review and reporting has been in place for a number of years, and in light of the current environment, these assessments are critical in identifying areas requiring actions to be taken.

**Future Outlook**

Despite the unprecedented levels of geo-political unrest, there were periods of stability over the year, moreover, financial markets experienced significant growth largely attributable to a cluster of technology stocks. The road to financial recovery however is uncertain as governments continue their battles against rising inflation, however, progress is now tangible, and the world awaits reductions in interest rates and a return to a more stable global environment.

Whilst the Fund remain long term investors, adverse market conditions pose additional investment challenges. In the area of administration, the challenges of implementing new legislation have been acute, as although laws are passed, detail as to the treatment of cases and guidance remains lacking, and this poses further performance challenges, as cases are subject to delay as a result.

The Fund will continue to work with its portfolio managers and professional advisors to sustain its strong financial position and overcome these challenges, and support Fund Officers to ensure effective and efficient management is maintained to protect members interests, and to support employers.

**2023/24 Accounts**

A summary of the main statements is provided below:

Statement of Responsibilities for the Statement of Accounts – outlining the responsibilities of the administering authority and the Executive Director of Corporate Services.

Fund Account – showing income and expenditure from the fund in relation to scheme members and the investment and administration of the Fund. The account also compares the Fund’s net assets at the start and end of the financial year.

Tayside Pension Fund accounts shows contributions received of £123.8m. This has increased by £9.0m during the year to 31 March 2024. Benefits payable were £153.6m, which increased by £20.6m since the previous year. Contributions increased in the scheme during 2023/24 mainly due to salary increases of active members. Benefits payable also increased due to increased pensioner membership and pension increase being applied.

Net Asset Statement – showing the type and value of all net assets at the end of the financial year. Tayside Pension Fund's net assets increased to £5.494bn from £4.834bn in 2023.

Notes to the Fund Accounts – providing supporting evidence and analysis of the information contained within the Fund Account and Net Asset Statement.

| | | |
|---|---|---|
| **Robert Emmott**<br>Executive Director of Corporate Services<br>Dundee City Council | **Gregory Colgan**<br>Chief Executive<br><br>Dundee City Council | **Bailie Willie Sawers**<br>Chair of Pension Sub-Committee<br>Tayside Pension Fund |

# TAYSIDE PENSION FUND STATISTICS

The tables below show a five-year analysis of membership, member transactions, net asset movements and a ten-year cashflow forecast.

| **Membership** | **2019/20** | **2020/21** | **2021/22** | **2022/23** | **2023/24** |
|---|---|---|---|---|---|
| Number of Employers | 46 | 45 | 43 | 42 | 41 |
| Active Members | 19,117 | 19,181 | 18,816 | 18,912 | 18,765 |
| Deferred Members | 10,410 | 10,485 | 10,865 | 11,427 | 4,494 |
| Undecided / Frozen | 4,842 | 5,238 | 6,139 | 7,235 | 11,774 |
| Pensioners | 16,635 | 16,937 | 17,526 | 18,008 | 18,645 |
| **Total Membership** | **51,004** | **51,841** | **53,346** | **55,582** | **53,678** |

| **Member Transactions** | **2019/20**<br>£000 | **2020/21**<br>£000 | **2021/22**<br>£000 | **2022/23**<br>£000 | **2023/24**<br>£000 |
|---|---|---|---|---|---|
| Employer Contributions | 73,736 | 76,211 | 81,241 | 84,524 | 91,564 |
| Employee Contributions | 25,890 | 27,091 | 28,363 | 30,210 | 32,200 |
| Transfers In | 4,551 | 3,635 | 6,221 | 3,954 | 8,008 |
| Lump Sums Paid | (24,369) | (23,026) | (26,132) | (27,481) | (35,073) |
| Pension Paid | (91,639) | (96,061) | (99,574) | (105,447) | (118,462) |
| Transfer Out | (5,825) | (12,503) | (5,757) | (5,076) | (4,676) |
| Administration costs | (1,884) | (1,655) | (1,968) | (1,867) | (2,339) |
| **Net withdrawals** | **(19,540)** | **(26,308)** | **(17,606)** | **(21,183)** | **(28,778)** |

| **Net Asset Movements** | **2019/20**<br>£000 | **2020/21**<br>£000 | **2021/22**<br>£000 | **2022/23**<br>£000 | **2023/24**<br>£000 |
|---|---|---|---|---|---|
| Opening Net Assets | 3,893,121 | 3,672,321 | 4,849,572 | 5,095,976 | 4,834,052 |
| Investment Income | 86,738 | 71,033 | 79,440 | 84,205 | 82,981 |
| Management Costs | (9,605) | (10,411) | (10,494) | (9,934) | (10,422) |
| Member Transactions | (19,540) | (26,308) | (17,606) | (21,183) | (28,778) |
| Change in Market Value | (278,393) | 1,142,937 | 195,064 | (315,012) | 615,692 |
| **Closing Net Assets** | **3,672,321** | **4,849,572** | **5,095,976** | **4,834,052** | **5,493,525** |

| **Cashflow Forecast** | **2024/25**<br>£000 | **2025/26**<br>£000 | **2026/27**<br>£000 | **2027/28**<br>£000 | **2028/29**<br>£000 |
|---|---|---|---|---|---|
| Pension Income | 127,553 | 132,600 | 137,847 | 143,303 | 148,976 |
| Pension Expenditure | (163,445) | (172,972) | (183,061) | (193,746) | (205,063) |
| Net Pension Cashflow | (35,892) | (40,372) | (45,214) | (50,443) | (56,087) |
| Net Investment Income | 74,205 | 77,804 | 81,577 | 85,534 | 89,682 |

| | **2029/30**<br>£000 | **2030/31**<br>£000 | **2031/32**<br>£000 | **2032/33**<br>£000 | **2033/34**<br>£000 |
|---|---|---|---|---|---|
| Pension Income | 154,873 | 161,005 | 167,381 | 174,009 | 180,901 |
| Pension Expenditure | (217,049) | (229,743) | (243,188) | (257,428) | (272,511) |
| Net Pension Cashflow | (62,175) | (68,737) | (65,807) | (83,419) | (91,610) |
| Net Investment Income | 94,032 | 98,592 | 103,374 | 108,388 | 113,644 |

## THE MANAGEMENT OF TAYSIDE PENSION FUND

### Pension Sub-Committee

Tayside Pension Fund is administered by Dundee City Council as the administering authority with responsibility for the management of the Fund delegated to the Tayside Pension Sub-Committee. This Sub-Committee meets quarterly and oversees the supervision and administration of the Fund's investments, sets the investment strategy and also oversees pension administration. The day to day operational matters are further delegated in the main to the Executive Director of Corporate Services.

The table below show the membership of the Pension Sub-Committee to 31st March 2024:

| |
|---|
| Bailie Willie Sawers (Chairperson) |
| Bailie Kevin Keenan |
| Councillor Steven Rome |
| Councillor Dorothy McHugh |
| Councillor Ken Lynn |
| Councillor Michael Crichton |

All committee members are members of Tayside Pension Fund.

### Local Pension Board

As a result of legislative changes to the governance arrangements in relation to pension schemes in the public sector, Dundee City Council as an administering authority for the Local Government Pension Scheme (LGPS), is required to have in place a local Pension Board.

The Pension Board was established on 1st April 2015. The Pension Board is separate from the Pension Sub-Committee, with the role of assisting in securing compliance with the regulation and other legislation relating to the governance and administration of the Scheme and also the requirements of the Pensions Regulator, and making sure that the scheme is being managed and governed in an effective and efficient manner.

The Pension Board members work in conjunction with Dundee City Council in its role as the administering authority and with officers of the Tayside Pension Fund to ensure that your pension scheme is being run properly and that you, as a scheme member, get the best service. The local Pension Board must have an equal number of scheme member and scheme employer representatives and board members are appointed for a term of 5 years (in line with local government election cycle).

The table below show the membership of the Pension Board as at 31st March 2024:

| Name | Representing | Organisation |
|---|---|---|
| Mr Kenny Dick (Chairperson) | Employer | Care Inspectorate & SSSC |
| Mr Arthur Nicoll | Member | UNISON |
| Cllr Stewart Donaldson | Employer | Perth & Kinross Council |
| Cllr Bill Duff | Employer | Angus Council |
| Ms Claire Shepherd | Member | UNITE |
| Mr George Ramsay | Member | UNITE |
| Mr James Cunningham | Member | GMB Scotland |
| Ms Margaret McGuire | Member (substitute) | UNISON |
| Mr Raymond Boyd | Member (substitute) | GMB Scotland |
| Vacant | Employer | |

The Pension Sub-Committee and Pension Board must undergo continuous regular training which can be delivered locally or nationally (as a minimum attending full induction sessions and completing The Pensions Regulator's Essential Public Service Modules within their Trustee Toolkit). The Pension Sub-Committee and Pension Board hold joint meetings on a quarterly basis, and each member of the Pension Sub-Committee and Pension Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest. The meetings have continued to be held virtually throughout the financial year. Full details of the scheme's governance structure are contained in the scheme's Governance Compliance Statement.

**Tayside Pension Fund Officers**

The day-to-day running of Tayside Pension Fund is carried out by the Financial Services Team within the Corporate Finance Section of the Corporate Services Directorate of Dundee City Council. The division functions include investment and pension administration. The investment responsibilities include the monitoring and selection of external investment managers and advisors. Over the year, senior officers were:

| | |
|---|---|
| Robert Emmott | Executive Director of Corporate Services |
| Paul Thomson | Head of Corporate Finance |
| Tracey Russell | Service Manager Financial Services |
| Roger Mennie | Head of Democratic and Legal Services |

**Scheme Advisory Board**

The Scheme Advisory Board for the Local Government Pension Scheme in Scotland was set up following the Public Service Pensions Act 2013. The Board's main function is to advise Scottish Ministers, when requested, on the desirability of changes to the Scheme. They can also provide advice to Scheme Managers and Pension Boards in relation to effective and efficient administration and management of the Scheme in Scotland.

The membership of the Scheme Advisory Board comprises of seven-member representatives and seven employer representatives and a Joint Secretary is appointed in support of each of the Member and Employer groups. There is more information on the Scheme Advisory Board at www.lgpsab.scot.

| | |
|---|---|
| **Fund Managers** | Baillie Gifford & Co<br>Fidelity Pension Management<br>Legal & General Investment Management<br>Schroder Property Investment Management<br>Goldman Sachs Asset Management (terminated December 2023)<br>Apollo Global Management (appointed December 2023)<br>Partners Group (appointed December 2023) |
| **Investment Advisor** | ISIO Services Ltd |
| **Actuary** | Barnett Waddingham |
| **Custodian** | Northern Trust |
| **System Provider** | Aquila Heywood Ltd |
| **Banker** | Royal Bank of Scotland |
| **Auditors** | Audit Scotland (external), PwC (internal) |
| **Corporate Governance Advisor** | Pension & Investment Research Consultants Ltd (PIRC) |
| **Performance Measurement** | Northern Trust |
| **Legal** | CMS Cameron McKenna Nabarro Olswang LLP |
| **Covenant Advisor** | PwC |

## ANNUAL GOVERNANCE STATEMENT

Dundee City Council is the administering authority and scheme manager of Tayside Pension Fund, a local government pension fund covering the three local authorities in the former Tayside area, and 39 other large and small employers. The main functions of the Administering Authority are the administration of scheme benefits and the investment of the assets of the Fund. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

**Role of the Administering Authority**

The role of Dundee City Council as the Administering Authority of Tayside Pension Fund is carried out via:

- The Pension Sub-Committee
- The Pension Board
- The Corporate Finance Section within the Corporate Services function of the Council

The Council has set up the Pension Sub-Committee with delegated responsibility to control and resolve all matters relating to the investment of assets and the overall governance of Tayside Pension Fund. It is the role of the Pensions Committee to:

- Ensure that the Fund is:
    - Compliant with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the fund.
    - Valued as required and that reports received on each valuation are considered.
- Be 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.
    - Ensuring appropriate additional voluntary contributions arrangements are in place.
    - Providing scrutiny for the Fund, reviewing the Annual Governance Statement, Annual Accounts and all audit reports and arrangements.
- 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

The Pension Sub-Committee consists of 6 Elected Members from the administering authority, supported by officers of the administering authority (including the Executive Director of Corporate Services, who carries out the Section 95 duties on behalf of Dundee City Council). The Sub Committee meets quarterly at joint meetings with the Pensions Board. Additional meetings are arranged as required should the need arise.

The Pension Board is separate from the Pension Sub-Committee, and responsible for assisting Dundee City Council (as Scheme Manager) in relation to securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme, as well as the requirements of the Pensions Regulator. The Pension Board may consider any matter concerning pensions it deems relevant to the activities of the Pension Sub-Committee in relation to its remit and role defined in the 2014 regulations.

The Pensions Board consists of an equal number of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies within the Fund.

Under the same 2014 regulations, the governance arrangements also included the introduction of the national Scheme Advisory Board, whose role is to provide advice to the Scottish Ministers as requested, and furthermore to provide advice to the Scheme Managers or the Scheme's Pension Board in relation to the effective and efficient administration and management of the Scheme and any Funds within the Scheme. The Scottish Public Pensions Agency (SPPA) is responsible for maintaining the rules of the Local Government Pension Scheme in Scotland on behalf of the Scottish Ministers and is deemed a "Responsible Authority" under the terms of the 2013 Act.

In addition, the powers of the Pensions Regulator were also extended to cover standards of governance and administration in the Local Government Pension Scheme.

**Internal Audit and other governance measures**

Internal audit services for the Tayside Pension Fund are provided by PricewaterhouseCoopers (PwC) under the Crown Commercial Service Framework for the provision of a full internal audit service to fulfil the service requirements of annual audits. PwC's services are delivered in accordance with the Internal Audit Charter, with methodology aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing, and in conformance with Public Sector Internal Audit Standards (PSIAS).

In order to provide independent assurance on the overall risk management, internal control and corporate governance processes relating to the Fund, PwC undertake an annual risk assessment which informs their audit approach. Focussing on the key issues and risks, they then develop the annual plan driven by the Fund's strategic goals and associated risks. They consider the most significant risks and the control environment, as well as the areas where review would be most beneficial to the Fund. Tayside Pension Fund's Annual Risk Assessment & Internal Audit Plans are approved by the Pension Sub-Committee.

Taking cognisance that Internal Audit is one of a number of sources of assurance, and in developing the risk assessment and internal audit plan, PwC also consider the following sources of assurance and reliance:

- Audit Scotland, as external auditors
- Dundee City Council Internal Audit (annual progress review)
- National Fraud Initiative

In order to conform with PSIAS which apply to all internal audit service providers within the public sector, and the Local Authority Accounts (Scotland) Regulations 2014, The Head of Internal Audit is required to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework based upon, and limited to the audit work undertaken with the aim of providing reasonable assurance.

To enable this opinion to be provided, the following internal audit reviews were undertaken:

- Pension Administration
- Liquidity Management
- ESG Strategy (Advisory Review)
- TPR General Code (Advisory Review)

The Head of Internal Audit must be satisfied that sufficient internal audit work has been undertaken within the financial year to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and controls. Tayside Pension Fund has received a Satisfactory Opinion of the Fund's governance, risk management and control, based upon the two internal audit reviews undertaken in the year, and two advisory reviews performed. There were 2 medium and 5 low risk rated findings across the internal audit reviews completed in the period. PwC advise that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

The Fund takes part in the National Fraud Initiative in order to identify if fraud has been committed and pensions have been wrongly paid, and take subsequent recovery action. Occasionally incorrect payments may be made because of genuine error and this could result in payments to pensioners being increased. This exercise therefore helps promote the best use of public funds. No significant fraud or errors were identified during this process.

The Fund held employers' meetings online throughout the year, and ensured that all key reports have been made available to stakeholders at the earliest opportunity via the Fund's website. The Fund intend to reinstate an annual face to face event through the course of the new financial year.

**Scope of Responsibility**

Dundee City Council has the responsibility for ensuring that the business of Tayside Pension Fund is conducted in accordance with the law and appropriate standards, and for ensuring there is a sound system of governance (incorporating the system of internal control) and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as continuous improvement in the way its functions are carried out.

In discharging these duties Elected Members and senior officers are responsible for implementing effective arrangements for governing the Council's affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To this end the Council has approved and adopted a Local Code of Corporate Governance that is consistent with the principles of the CIPFA/SOLACE (Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives) framework Delivering Good Governance in Local Government. The Local Code of Corporate Governance explains how Dundee City Council delivers good governance and this Annual Governance Statement reviews the effectiveness of these arrangements.

In addition, the Council is responsible for confirming effective corporate governance arrangements exist within its other group entities. In line with Accounts Commission guidance, including Safeguarding Public Money: are you getting it right? Following the Public Pound and Arm's Length External Organisations (ALEOs): are you getting it right? part of that responsibility is about ensuring that public money is being used appropriately and achieving Best Value.

**The Governance Framework**

Tayside Pension Fund operates within the wider governance framework of Dundee City Council. The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled. It enables the Council to monitor the achievement of its planned objectives and outcomes and to consider whether those objectives and outcomes have led to the delivery of appropriate, cost-effective services, and also provides direction for stakeholder engagement and communication.

The Local Code of Corporate Governance is supported by detailed evidence of compliance which is regularly reviewed by a working group of senior officers.

Within the overall control arrangements, the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented altogether or detected within a timely period. It is based on a framework of regular management information, financial regulations, administrative procedures and management supervision and checking.

The overall control arrangements include:

- Identifying the Council's objectives in the Council Plan, Community Plan and Local Outcomes Improvement Plan (City Plan).
- Monitoring of achievement of those objectives and outcomes by the Council and senior officers.
- A systematic approach to monitoring service performance at Elected Member, senior officer and project level.
- Reporting performance regularly to Council Committees.
- Three-year service plans for all service areas. Regular performance reports in relation to the service plans began to be reported to relevant Committees from November 2021.
- Performance Management Framework.
- Clearly defined Standing Orders and Schemes of Administration covering Financial Regulations, Tender Procedures and Delegation of Powers.
- A Monitoring Officer to ensure compliance with laws and regulations.

- A Scrutiny Committee and individual Service Committees. The functions of the Scrutiny Committee are undertaken as identified in Audit Committees: Practical Guidance for Local Authorities, however, for Tayside Pension Fund, scrutiny is provided by the Pension Board rather than an audit committee.
- Approved anti-fraud and corruption strategies including "whistle-blowing" arrangements under the Public Interest Disclosure Act 1998.
- Ethical Values Framework.
- A Corporate Integrity Group.
- A Serious Organised Crime Group.
- Senior Officer Resilience Group.
- Council Leadership Team and each Service's Senior Management Teams.
- Participating in the National Fraud Initiative for sharing and cross-matching data with regular reports to Committee.
- Formal project appraisal techniques and project management disciplines.
- Setting targets to measure financial and service performance.
- Long-term Financial Outlook and Financial Strategy 2020 – 2030 and Medium-Term Financial Strategy.
- Formal revenue and capital budgetary control systems and procedures.
- An Our People and Workforce Strategy is in place to support delivery of the Council Plan and its strategic priorities.
- A Risk Management Policy and Strategy, Corporate and Service Risk Registers.
- Corporate Risk and Assurance Board, chaired by the Executive Director of Corporate Services as Senior Responsible Officer for risk.
- Corporate Governance Assurance Statement Group.
- Strategic Information Governance Group.
- Data Protection Policy and Data Breach Management Procedure.
- The assurances provided by internal audit through their independent review work of the Council's governance, risk management and control framework.

**Review of Effectiveness**

Members and officers of the Council are committed to the concept of sound governance and the effective delivery of Council services and consider comments made by external and internal auditors and other review agencies and inspectorates and prepare actions plans as appropriate.

The effectiveness of the governance framework is reviewed annually by a working group of senior officers. The 2023/24 review of governance arrangements against the Local Code of Corporate Governance has identified the Council as being 99% (2022/23: 99%) compliant with the principles of the CIPFA/SOLACE framework Delivering Good Governance in Local Government.

In addition, Executive Directors from each service have made a self-assessment, in conjunction with their senior management teams, of their own governance, risk management and internal control arrangements. This involved the completion of a 74-point checklist covering eight key governance areas of Service Planning and Performance Management; Internal Control Environment; Fraud Prevention and Detection; Budgeting, Accounting and Financial Control; Risk Management and Business Continuity; Asset Management; and Partnerships; and Information Governance. This continues to score a high level of compliance, with an overall score above 92% for 2023/2024 (2022/2023: 91%).

Over and above the Internal Audit Service delivered by PwC, the Council's Internal Audit Service also operates in accordance with the Public Sector Internal Audit Standards and reports functionally to the Scrutiny Committee. Conformance with the PSIAS should be confirmed independently, through the completion of a formal External Quality Assurance (EQA) process. The independent review was due to be undertaken in 2023 but has been subject to delay of the reviewer. Conformance with PSIAS, with the exception of updating the EQA within 5 years has been confirmed by the self-assessment prepared by the Service as part of the review. Internal Audit undertakes an annual programme of work, which is reported to the Scrutiny Committee. The Senior Manager – Internal Audit provides an independent opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework. The overall audit opinion, based on the above, is that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2024.

The Executive Director of Corporate Services complied fully with the five principles of the role of the Chief Financial Officer, as set out in CIPFA guidance. The Council's financial management arrangements conform with the requirements of the CIPFA Financial Management (FM) Code (2019).

**Continuous Improvement Agenda**

The following are service improvements specific to Tayside Pension Fund achieved during 2023/24:

| Business Area | Item | Description | Status / Information |
|---|---|---|---|
| Finance & Governance | Employer contributions | Changes required following review to assess adequacy of design and operating effectiveness of key controls supporting the employer contributions process | Additional controls implemented |
| Investment | Investment Strategy | Implementation of recommendations to achieve further diversification | Exercise completed |
| Administration | Changes to legislation | Analysis of records and plan to be developed & implemented to enable changes to legislation in relation to discrimination are implemented | Exercise ongoing |
| | Pensions Dashboard | Action of requirements following advisory review to assess readiness | Recommendations implemented |

The following are service improvements specific to Tayside Pension Fund planned for 2024/25:

| Business Area | Item | Description | Status / Information |
|---|---|---|---|
| Finance & Governance | Review of structure, roles and resources / Business Resilience | Recommendation of audits to review as a result of increasing number of new additional legislative and governance requirements | In initial stages |
| | Investment Strategy | Review of the design of key controls and governance that lead to advising on and setting the investment strategy. | Scheduled |
| | Employer Covenant | Employer engagement following outcome of review undertaken 2019/20 with aim of implementing recommendations | Delayed from previous year as a result of resource constraints. |
| | Admission Agreements | Standardisation of admission agreements | Delayed from previous year and will coincide with covenant exercise |
| Investment | Investment Strategy | Following the outcome of the 2023 actuarial valuation, a review of the Fund's investment strategy will take place in 2024/25, with any | Scheduled |

| | | | |
|---|---|---|---|
| | | recommendations actioned when market conditions favour. | |

Information on the Fund is available from the following links:

Minutes of Joint Pension Sub-Committee and Pension Board meetings –
http://www.dundeecity.gov.uk/minutes/meetings?in_cc=35&in_dat=1

Fund Website - https://taysidepensionfund.org/resources/

- The Statement of Investment Principles, concerning the approach to the investment of the Fund
- The Business Plan, communicating the aims and objectives of the Fund for the forthcoming year
- The Treasury Management Policy and Strategy for the forthcoming year.
- The Actuary's report on the 2023 valuation
- The Funding Strategy Statement, concerning the management of the identification and management of the Fund's liabilities
- The Risk Policy & Register
- The Governance Policy Statement which sets out the Funds approach
- Environmental, Social and Corporate Governance Policy for investment.
- Pension Administration Strategy
- Communications Policy
- The Governance Compliance Statement, setting out the governance arrangements and compliance with regulations

**Conclusion**

The annual review demonstrates sufficient evidence that the Code's principles of delivering good governance in local government operated effectively and compliance with the Local Code of Corporate Governance in all significant respects for 2023/2024. It is proposed over 2024/2025 steps are taken to address the items identified in the Continuous Improvement Agenda to further enhance governance arrangements.

| | |
|---|---|
| **Gregory Colgan**<br>Chief Executive<br>Dundee City Council | **Bailie Willie Sawers**<br>Chair of Pension Sub-Committee<br>Tayside Pension Fund |

## GOVERNANCE COMPLIANCE STATEMENT

### 1. Role and Responsibilities

Dundee City Council has statutory responsibility for the administration of the Local Government Pension Scheme ("LGPS") in respect of the three local authorities in the former Tayside area, and 40 other large and small employers.

The main functions are:
- management and investment of scheme funds; and
- administration of scheme benefits

These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

Dundee City Council carries out its role as Administering Authority via:

- The Tayside Pension Fund Sub-Committee of the Policy & Resources Committee;
- Tayside Pension Fund within the Corporate Finance Section of the Councils Corporate Services Directorate.

Tayside Pension Fund also acts as a payroll agent for compensatory added years payments within the Teachers Superannuation Scheme.

### 2. Delegation
The function of maintaining the Tayside Pension Fund is delegated by Dundee City Council to its Tayside Pension Fund Sub-Committee. The Fund's policy documents are available at: https://taysidepensionfund.org/resources/

### 3. Terms of Delegation
The terms, structure and operational procedures of delegation are set out in the report to Dundee City Council's Policy & Resources Committee on 9th February 2015. The report is available at:
http://www.dundeecity.gov.uk/reports/reports/447-2014.pdf

### 4. Committee Meetings
Regular meetings of Tayside Pension Fund Sub-Committee are held quarterly. Committee meeting dates are listed in the Council Diary which is available at:
https://www.dundeecity.gov.uk/minutes/meetings?in_cc=35&in_dat=2

### 5. Representation
The Tayside Pension Fund Sub-Committee is comprised solely of Elected Members of Dundee City Council. Employing authorities and scheme members are represented by Tayside Pension Fund Pension Board.

### 6. Compliance
The following demonstrates the assessment to the extent that the Fund is in compliance with guidance given by Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying are contained within the full Governance Compliance Statement which is available at: https://taysidepensionfund.org/resources/

| | |
|---|---|
| **Gregory Colgan** | **Bailie Willie Sawers** |
| Chief Executive | Chair of Pension sub-committee |
| Dundee City Council | Tayside Pension Funds |

# RISK POLICY & STRATEGY

## 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 document sets out Tayside Pension Fund's Risk Management Policy, Strategy and Risk Appetite, describing the approach to risk which the Sub-Committee adopts in light of their fiduciary duties.

The purpose of the Policy and Strategy is to effectively mitigate risks which may otherwise impact on achievement of the Fund's objectives, by implementing comprehensive risk management arrangements. These arrangements include, among others: development and maintenance of comprehensive risk registers; setting out of responsibilities for the management and escalation of risks; and responsibility for regular review and updating of Policy and Strategy.

The Policy and Strategy of Tayside Pension Fund have been framed in line with that of the administering authority, in that the recognition of the requirements for effective corporate governance and the benefits of risk management as an organisational management tool. It will assist the Fund in ensuring that risks which may impact on the achievement of objectives are effectively managed.

## 2. Background

Risk can be defined as the combination of the likelihood of an event occurring and the level of impact on the Pension Fund's ability to achieve its objectives if it does occur. Pension funds exist in order to pay future pension benefits. No organisation can completely eliminate risk due to the inherent uncertainties of the global economic environment, and there is therefore a risk that the investment assets of pension funds will be less or more than the pension liabilities. This Risk Policy & Strategy sets out a common basis for risk management.

## 3. Risk Types

The principal risk areas facing Tayside Pension Fund are summarised as:

- Governance
- Funding
- Operational
- Pensions Administration
- Transitional

The principal types of risk facing Tayside Pension Fund can be summarised as:

- liability risk
- investment risk
- administrative risk
- employer risk
- resource and skill risk
- regulatory and compliance risk and
- reputational risk

A more detailed description of each of the above are included in Appendices A and B.

## 4. Risk Policy

Risk should be eliminated, transferred or controlled as far as possible. To achieve this Tayside Pension Fund will ensure that risk management is integral to the governance and management of the Fund at both strategic and operational levels. The aim is to integrate risk awareness and management into both the processes and the culture of Tayside Pension Fund to help ensure that the Fund's objectives are met. This policy will be subject to annual review.

## 5. Risk Management Objectives

Tayside Pension Fund's principal risk management objectives are to:

- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk;
- ensure consistent application of the risk management methodology across all activities; and
- minimise the cost of risk.

How this is achieved will vary depending on the type of risk and the activity involved. In relation to pension fund administration, the objective is to eliminate risk as far as possible; whereas the investment objective is to balance risk and return.

## 6. Risk Management Strategy

The risk management process should be a continuous cycle. This is illustrated below:


### 6.1. Identifying Risks

This is the process of recognising risks and opportunities that may impact upon the Fund's objectives. The process is both proactive and reactive. Principal sources for identification of risks are:

- the existing Tayside Pension Fund risk register
- internal and external audit reports
- advice from actuarial, investment and legal consultants
- performance monitoring and review
- publications from:
    - The Pensions Regulator
    - Scheme Advisory Board
    - Local Government Pensions Committee
    - CIPFA Pensions Panel
- participation in industry networks:
    - Scottish Pensions Liaison Group (Pension Administration)
    - SLGPS Investment & Governance Group

Identifying risks is an integral part of the development of any new strategy or investment proposal. Once identified, risks will be recorded on the risk register which is the primary control document for the subsequent analysis, control and monitoring of risks.

### 6.2. Risk Assessment

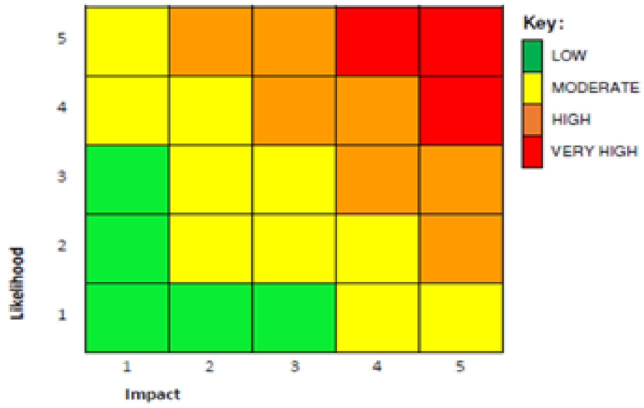
For this Tayside Pension Fund uses a standard methodology and template:

- each risk is scored from 1 to 5 for probability

- each risk is scored from 1 to 5 for impact

The product of these scores provides a risk ranking which is recorded in the Risk Register which provides a simple, systematic and consistent basis for analysis, understanding, communication, control, and monitoring of risks.

Risk Assessment Matrix




The table above shows the Fund's standard risk assessment matrix, which provides a graphic representation of where risk sits. The underlying suite of risk assessments are required to be completed in Pentana, which is the Dundee City Council risk management system that the Fund utilises. The assessment process is straightforward and intuitive with the assessments and 'scoring' matrix utilised by the Council used as the core assessment tool, as well as advice from the Council's Corporate Risk Management service.

### 6.3. Controlling Risk (Treat or Avoid)

Risk control describes actions taken to reduce the likelihood and adverse consequences of a risk event occurring. Control mechanisms will vary depending on the type of risk and the activity involved. Key mechanisms include:

- governance and decision-making structures as outlined in the Annual Governance Statement and Governance Compliance Statement (these are contained in the annual accounts).
- systemic procedures and controls
- resource allocation and management (internal and external)
- segregation of duties

### 6.4. Monitoring & Reviewing Risk

Regular review of the risk register is central to risk monitoring. The register is reviewed quarterly by:

- the officers of the Fund
- the Pensions Sub-Committee and Board

As part of the review consideration will be given to whether:

- the nature of the risk has changed
- the control environment has changed
- the probability of the risk occurring has changed
- the impact of the risk occurring has changed
- any new or emerging risks need to be considered

The objective is to ensure that risk control remains effective and that risk management evolves and improves over time as far as possible. Consideration of risk also forms part of the established investment, administration and funding monitoring arrangements.

7. **Risk Appetite**

Whilst the need to minimise risks and to effectively control excessive exposure to the types of risks noted is of prime importance, the Fund is prepared to accept risk where this enables opportunities to be taken, where these risks can be adequately managed by the deployment of effective control measures.
The Risk Appetite of Tayside Pension Fund is detailed in Appendix B.

| SUMMARY OF RISK TYPES |
|---|

**Funding/Liability Risk**
Tayside Pension Fund's overall objective is to pay pensions. The obligation to scheme members represents the Fund's principal liability. The amount of this liability is uncertain. Current estimates and eventual payments are dependent on factors including:

- interest rates
- salary inflation
- wage inflation and
- life expectancy

Each of these represents a risk that liabilities will be greater or less than anticipated.

**Investment Risk**
Future investment returns are uncertain and may be more or less than anticipated. Specific risk areas include:

- appropriateness of strategy
- manager and asset performance
- individual and systemic market risk
- security of assets
- counterparty failure
- concentration, credit, contract, currency, duration, macroeconomic

**Administrative Risk**
As administering authority, the Council has a statutory responsibility to other participating Councils, employers and scheme members. This entails particular exposure to risks in areas including

- IT system and facility dependency
- business continuity
- service provision
- communications
- process management
- financial management

**Employer Risk**
The administering authority is dependent on its employers fulfilling their statutory duties, in particular:

- deduction and submission of contributions
- data management
- process management
- member engagement

There is also a risk of orphaned liabilities through employer default.

**Resource and Skill Risk**
The pension fund is a relatively specialist function operating on a very large scale in terms of process and asset values and volumes. This requires significant resources and specialist skills and expertise.

**Regulatory and Compliance Risk**
Occupational pensions are heavily regulated and governed by general and LGPS-specific legislation.

**Reputational Risk**
Public service pensions attract intense scrutiny and commentary. There is also an opportunity to enhance organisational reputation through demonstrable good practice.

# TAYSIDE PENSION FUND RISK APPETITE STATEMENT

**Introduction**
Risk management is an integral part of good governance and corporate management mechanisms. Tayside Pension Fund (TPF) acknowledges that the Fund cannot be inherently risk averse and be successful. Therefore, effective and meaningful risk management involves taking a balanced view of risk and opportunity in delivering our objectives. This Risk Appetite Statement articulates the Fund's attitude to taking managed risks in support of strategic objectives. This statement will be reviewed annually in line with the Fund's Risk Policy.

**Purpose**
The purpose of the document is to outline the areas of principal risk to which the Fund is exposed, and set out an optimal and tolerable risk position. In doing this, this Risk Appetite Statement will:

- Set the parameters by which the Tayside Pension Fund officers will manage risk within the organisation.
- Inform resource allocation, balancing the need for effective risk management against the need to ensure value for money.

**Areas of principal risk**
The principal risk areas facing TPF are set out below:

- Governance: Risks associated with the policies, principles, processes, and resources used to govern the Fund.
- Funding: Risks of TPF having insufficient financial resources (assets) to pay its liabilities as they fall due.
- Operational: Risks associated with operational processes of TPF to achieve its operational objectives and desired operational results.
- Pensions Administration: Risks associated with TPF's interactions with members and employers, including record keeping.
- Transitional: Risks associated with short-term projects, likely to last for less than one year.

**Definition of risk appetite**
Tayside Pension Fund's risk appetite is described by setting an optimal and tolerable risk position, which are defined as follows:

- Optimal position: the level of risk at which the Fund aims to operate. Achieving an optimal position does not imply that TPF looks favourably on the risk. Risks at the optimal position may still represent a threat, however the controls currently in place are considered sufficient to reduce the risk to an appropriate level. Additional risk controls are not considered necessary for risks at the optimal position.
- Tolerable position: the level of risk within which TPF is willing to operate. Risks within the tolerance range may require further risk controls where suitable controls are available at a justifiable cost. Risks that are outside of tolerance represent the highest priority for further action.

In order to provide consistency across the TPF's activities, we consider risk appetite on the following scale:

| Risk Appetite | Optimal position | Tolerable position | Description |
|---|---|---|---|
| Averse | Nil | Low | Avoidance of risk and uncertainty in achievement of deliverables or initiatives is the most important objective. We seek to remove any risks that could jeopardise our objectives. Residual risks will be tolerated only if they carry a "low" risk rating. Where necessary, significant cost can be justified in the interest of ensuring that the residual risk remains "low". |
| Minimalist | Low | Moderate (where unavoidable) | We seek to reduce our exposure to these risks as much as possible within the constraints of the organisation. Residual risks are considered optimal if they are rated as "low". Where multiple approaches are available, we have a strong preference for options that have a low degree of risk. The potential for benefit/return is not a key driver, and increased costs are justifiable in the interest of reducing risk. We will tolerate risks rated as "moderate" only where no reasonable controls are available. |
| Cautious | Low | Moderate (where opportunity | We seek lower risk options, especially where the opportunity for upside is limited or the cost of lowering risk levels is acceptable. We are willing to tolerate residual risks rated as "moderate" where there is the |

| | | | |
|---|---|---|---|
| | | exists, cost unjustifiable, or unavoidable) | opportunity for significant benefit, where the cost of reducing the level of risk is unjustifiable, or where no reasonable controls are available. |
| Open | Moderate | High (where opportunity is substantial) | We consider all options and choose one most likely to result in successful delivery while providing an acceptable level of benefit. We are comfortable accepting "moderate" risks in recognition of the potential benefits available. We are willing to tolerate activities that carry, or contribute to, a high degree of residual risk where the opportunity for benefit is substantial. |
| Eager | Moderate | High | We are eager to be innovative and to choose options based on maximising opportunities and potential higher benefit, even where this results in increased risk. The level of residual risk resulting from activities is less important in the decision-making process than the opportunities available. A very high degree of residual risk can be tolerated. |

**Risk Appetite Statement**

Tayside Pension Fund's Appetite for each area of principal risk is set out below.

- **Governance**
  The Fund have adopted a minimalist stance for governance risks. We recognise that effective decision-making processes and internal controls are essential for the long-term success of TPF. Reductions in governance risks have a role in optimising positive outcomes for the Fund. TPF ensure that the Pensions Sub-Committee, Pensions Board and Fund Officers receive sufficient support to carry out their duties effectively. Compliance with all relevant legislation, regulation, and codes of practice is crucial, and ensure all statutory requirements are met. The Pension Sub-Committee & Pension Board receive quarterly performance reports to provide assurance that compliance monitoring is in place so that compliance risks are promptly identified and mitigated where required.

- **Funding**
  We have adopted a varied stance on funding risks. Funding risks are central to the operation of a defined benefit pension scheme, and we note the wide range of risks captured by this category. We recognise the need for balance between the requirement to secure the solvency of the pension fund and the long-term cost efficiency of the Scheme.
  Within this category:

  - We have adopted an open stance on investment risk. We recognise that investing in assets that target a higher level of return can lead to improved outcomes for the Fund and lower contributions for employers, but also higher potential losses. We aim to optimise returns subject to an acceptable level of risk. Our Statement of Investment Principles and Investment Beliefs set out our investment objectives and the investment strategy we follow in order to achieve them. We report investment performance on a quarterly basis, and have regular engagement with investment managers and advisors to ensure that the investment strategy remains appropriate to achieve the level of returns required. We also undertake quarterly funding level monitoring.
  - We have adopted a cautious stance on environmental, social, and governance (ESG) risk. Investments which exploit the environment or otherwise give rise to risk arising from poor or unsustainable business practices are not consistent with the investment goals of the Fund. We seek to reduce ESG risks primarily through engagement via the activities of our delegated investment managers. Our Environmental, Social & Corporate Governance Policy sets out our approach to managing these risks in more detail.
  - We have adopted a cautious stance on employer-related risks. The employer-related risk is that individual employers are unable remain in the Fund and make payments in respect of their staff and their organisation, which could ultimately result in other employers needing to pay more. We seek to reduce this risk where possible, whilst seeking to ensure that contributions remain affordable for employers. Where there are circumstances which make it likely that a Scheme employer will have to exit the Fund, we will prioritise the solvency of the Fund above the affordability of employer contributions, however we will take all available efforts to ensure that the payment of liabilities to the Fund are affordable. The Fund utilises specialist services identify, assess, and manage all aspects of covenant risk.
  - We have adopted an adverse stance on liquidity risk. It is essential that TPF maintains sufficient liquid assets to pay benefits as they fall due. The Fund will not tolerate any risks that could jeopardise the

ability to access funds to pay benefits. TPF has a defined Treasury Management Policy & Strategy, as well as effective operational cashflow management.

- **Operational**

We have adopted a minimalist stance on operational risks. We recognise that operational risks (including asset security, data protection, business continuity, and cyber security) could threaten TPF's ability to pay benefits as they fall due. We therefore seek to reduce our exposure to these risks as much as possible. These risks are managed on a day-to-day basis primarily through the activities of third parties (including our custodian, appointed investment managers, and system providers) as well as in-house services provided by Dundee City Council as administering authority. TPF maintain regular oversight of both in-house and third parties to ensure that operational risks managed appropriately.

- **Pensions Administration**

We have adopted a minimalist stance on pension administration risks. We recognise that pension administration risks (including the risk of poor data quality, incorrect benefit calculations, and poor-quality service and communications) could negatively affect members, employers, and regulatory compliance. These risks could also be detrimental to the reputation of TPF.
Day-to-day pensions administration is carried out in-house. The Fund Officers maintain daily oversight of Fund administration, with TPF Pension Sub-Committee and Board maintaining regular oversight of TPF to ensure that pensions administration risks are managed appropriately. We seek to ensure that benefits are administered to a high standard on our behalf, with a preference for processes and systems that reduce pensions administration risks as much as possible within the constraints of the organisation.

- **Transitional**

TPF have adopted a varied stance on transitional risks (i.e. temporary and largely short-term in nature). These risks can result from events initiated by TPF or our service providers (for example, projects to improve systems or processes), or from external factors out-with the Fund's direct control (e.g. changes to legislation or the Covid-19 pandemic).
Within this category:

- We have adopted a cautious stance on events initiated by TPF as we recognise the benefits to the Fund of improving systems and processes, and as such, can tolerate moderate risks where significant opportunities are identified.
- We have adopted a minimalist stance on projects in response to external influences. We recognise that we have little control over the emergence of these risks and our focus is therefore on reducing their impact as much as is possible.

APPENDIX C

## RISK ASSESSMENT MATRIX

| Impact / Domain | 1 None / Insignificant | 2 Minor | 3 Moderate | 4 Major | 5 Extreme |
|---|---|---|---|---|---|
| **Political / Reputational** | No media coverage / no impact on staff morale<br><br>Little or no reputational impact | Local media short term / minor impact on staff morale and / or Some impact on reputation with principal stakeholders | Local media longer term / clear impact on staff morale and / or reputational damage with principal stakeholders (distrust resulting in close monitoring) | National media (<3 days) / public confidence undermined / service usage affected and / or Loss of trust of principal stakeholders (seeking external advice) | National media (3+ days) MP / MSP concern – questions asked in parliament and / or fundamental change in relationships with principal stakeholders |
| **Economic / Financial (Unanticipated Financial Loss)** | < £10m | £10m to £50m | £50m to £100m | £100m to £500m | >£500m |
| **Strategy** | Minor impact on functional objectives, but no impact on overall strategy | Major impact on 1 or more functional objectives, but no impact on overall strategy | Major impact on 1 or more functional objectives, but some limited impact on overall strategy | Significant impact on ability to deliver strategic objectives | Unable to meet multiple strategic objectives |
| **Technological / Operational Business or Service Interruption** | No or negligible interruption<br><br>(1-2 working days) | Some impact but only minor interruption<br><br>(3-5 working days) | Noticeable interruption and client inconvenience<br><br>(6-8 working days) | Sustained service interruption and serious client impact – major contingency plans invoked<br><br>(9-15 working days) | Loss of core service / facility, significant 'knock-on' effect / inability to achieve key objectives<br><br>(> 15 days) |
| **Legal / Statutory Obligations** | No / negligible or marginal deviation / breach / non-compliance<br><br>No regulatory interest (not material) | Minor deviation / breach / non-compliance<br><br>Regulator report – Regulators require explanation and update (informal) | Moderate Deviation / breach / non-compliance<br><br>Regulator report – Formal investigation (i.e. written request) | Major Deviation / breach / non-compliance<br><br>Regulator launches formal investigation, with potential for fine | Catastrophic Deviation / breach / non-compliance reported to regulatory authority.<br><br>Potential for significant fine and changes to operating model mandated by Regulator |
| **Organisational / Staffing & Competence** | Staff turnover / absence higher than expected with little or no impact on operations/ objectives | Staff turnover / absence significant with minor impact on operations / objectives<br><br>Minimal service disruption, with | Limited loss of key individuals (1-2 people)<br><br>Noticeable impact on objectives / noticeable service disruption | Loss of multiple skills or loss of mission critical individual<br><br>Significant impact on objectives / considerable service disruption | Irrecoverable loss of key skills<br><br>Unable to meet objectives / extended loss of service |

| | | | | | |
|---|---|---|---|---|---|
| | Service unaffected with minimal disruption | potential for minor training related errors | Ongoing staffing level problems / late delivery of key objective(s) / compliance / moderate training related errors | Significant reduction in ability to meet objectives / compliance. Lack of staff / uncertain delivery of key objective / major training related errors | Inability to meet objectives, serious reputational damage Critical training related errors |

**Risk Likelihood Assessment**

| | **1 Remote** | **2 Unlikely** | **3 Possible** | **4 Likely** | **5 Almost Certain** |
|---|---|---|---|---|---|
| **Probability** | Will only occur in exceptional circumstances | Unlikely to occur, but definite potential exists | Reasonable chance of occurring – has happened before within DCC or elsewhere | Likely to occur – strong possibility | The event will occur in most circumstances |

APPENDIX D

**RISK REGISTER**

The following provides the revised list of risks that are assessed and reported on a quarterly basis:

| Risk Title | Causes | Impact | Consequence |
|---|---|---|---|
| 1. Failure to process pension payments and lump sums on time | • Non-availability of pension / payroll systems<br>• Resource unavailable<br>• New staff undertaking duties<br>• Increased workload<br>• Failure to gain relevant information from employers to enable processing | • Processing delays<br>• Processing errors<br>• Retiring members will be paid late<br>• Reputational risk for the Fund<br>• Breach of statutory requirements | • Financial implications for members.<br>• Loss of stakeholder confidence.<br>• Financial cost to the fund if interest has to be paid to members.<br>• Regulatory action |
| 2. Failure to collect and account for contributions from employers and employees on time | • Non-availability of financial system (Fund and employer)<br>• Resource unavailable<br>• New staff undertaking duties<br>• Failure to communicate with employers effectively<br>• Failure of employer to provide required information<br>• Failure of employer to make financial settlement | • Adverse audit opinion<br>• Breach of statutory requirements<br>• Knock on effect on reporting requirements<br>• 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<br>• Potential delays to employers' IAS19/FRS17 year-end accounting reports<br>• Loss of stakeholder confidence<br>• Recovery / legal action required<br>• Opportunity cost of lost investment income |
| 3. Insufficient funds to meet liabilities as they fall due | • Contribution levels are inadequate<br>• Contributions<br>• Investment strategy fails to deliver adequate returns<br>• Significant changes in member profile (i.e. rapid maturing of fund liabilities)<br>• Significant increases in actuarial assumptions (i.e. longevity. | • Rise in employer contribution rate required<br>• Unplanned asset sales required to meet<br>• Revision of Funding and Investment strategies required | • Inability to meet overall strategic objectives<br>• Immediate cash injections would be required from employers by means of contributions<br>• Reduced funding levels<br>• Lost investment income from unplanned asset sales<br>• Transaction costs associated with changing strategies |
| 4. Inability to maintain service due to loss of main office, computer system or staff | • Fire, bomb, flood, etc.<br>• Staff unable to access office (i.e. public health restrictions)<br>• IT system / network outage | • Temporary loss of service provision.<br>• Delayed payments & processing<br>• Retiring staff will be paid late<br>• Reputational risk for the Fund | • Financial implications for members.<br>• Loss of stakeholder confidence.<br>• Financial cost to the fund if interest has to be paid to members.<br>• Regulatory action |

| Risk Title | Causes | Impact | Consequence |
|---|---|---|---|
| | | • Breach of statutory requirements | |
| 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<br>• Reputational risk for the Fund<br>• Adverse audit opinion<br>• Breach of statutory requirements<br>• Enforcement action | • Requirement for report to regulator & subsequent action if required<br>• Criminal investigation<br>• Loss of stakeholder confidence<br>• Recovery / legal action required |
| 6. Employers unable to participate in scheme | • Employer liabilities increase disproportionately as a result of changed member profiling<br>• Employer liabilities increase disproportionately as a result of external factors (i.e. change in bond yields)<br>• Reduced asset values in relation to liabilities due to external factors | • Employers unable to maintain contributions<br>• Employers exit from fund<br>• Employer cannot meet liabilities on exit | • Inability to meet overall strategic objectives<br>• Financial loss to fund, triggering asset sales to meet pension payments<br>• Fund profile changed as a result of employer exit<br>• Insolvency of employer<br>• Recovery of liabilities in liquidation |
| 7. Significant rises in employer contributions due to poor/negative investment returns | • Poor economic conditions<br>• Inappropriate investment strategy<br>• Poor selection / performance of investment managers | • Financial impact as a result of poor/negative investment returns<br>• Revision of investment strategy required<br>• Dismissal of investment managers | • Inability to meet overall strategic objectives<br>• Reduced funding level<br>• Increased contributions required<br>• Transaction costs on change of strategy or investment manager |
| 8. Failure of global custodian | • Financial collapse of global custodian or failure to safeguard assets or records | • Financial loss to the fund.<br>• Loss of information required for statutory and accounting purpose | • Inability to meet overall strategic objectives<br>• Severe service disruption as a result of recovery action<br>• Statutory breaches |
| 9. Failure of Investment Manager | • Substantial decline of global financial market<br>• Economic factors impacting on asset class<br>• Under performance of investment manager | • Financial loss to the fund<br>• Reduced asset returns<br>• Investment outflows from investment manager portfolio<br>• Termination of mandate with investment manager | • Inability to meet overall strategic objectives<br>• Reduced funding level<br>• Increased employer contribution levels<br>• Required appointment of alternative investment manager<br>• Transaction costs associated with change |

| Risk Title | Causes | Impact | Consequence |
|---|---|---|---|
| 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<br>• Reduced funding level<br>• Increased employer contribution levels |
| 11. Failure to comply with changes to LGPS regulations and other new regulations / legislation<br><br>Specifically:<br>• GMP<br>• McCloud<br>• Pensions Dashboard | • Significant changes to scheme & regulations which staff are unfamiliar with<br>• Failure in readiness for changes<br>• Lack of technical expertise / training<br>• Inadequate procedures / process<br>• Lack of resources<br>• Error in interpreting requirements<br>• IT systems not updated to reflect changed requirements | • Incorrect calculations<br>• Delays in processing<br>• Statutory breaches<br>• Reputational risk | • Financial implications for members.<br>• Loss of stakeholder confidence.<br>• Financial cost to the fund if interest has to be paid to members.<br>• Regulatory action |
| 12. Failure to comply with governance best practice<br><br>Specifically:<br><br>• TPR New Draft Code of Practice<br>• TPR Good Governance project outcomes | • Failure to implement requirements<br>• Inadequate processes / procedures<br>• Inadequate training as to changed requirements | • Breach of statutory requirements<br>• Sub-standard service to members and employers<br>• Reputational risk for the Fund | • Regulatory action<br>• Loss of stakeholder confidence |
| 13. Failure to provide quality service to members | • Inadequate administration & communication policies<br>• Lack of resources<br>• Lack of staff skills / knowledge<br>• Lack of training<br>• Ineffective processes & procedures<br>• Poor communication documentation<br>• Unanticipated workloads | • Reputational risk for the Fund<br>• Processing delays & errors<br>• Late payments<br>• Sub-optimal decision making<br>• Reputational risk for the Fund | • Financial implications to members<br>• Loss of stakeholder confidence |
| 14. Failure to hold personal data securely | • Insufficient system abilities re security of data<br>• Sub-standard retention processes & procedures<br>• Inadequate data retention policy, backup and recovery procedures<br>• Change of retention requirements | • Data lost or compromised<br>• Incorrect member records<br>• Processing delays & errors<br>• Retiring staff will be paid late<br>• Reputational risk for the Fund | • Financial impact to members<br>• Loss of stakeholder confidence.<br>• Financial cost to the fund if interest has to be paid to members.<br>• Regulatory action |

| Risk Title | Causes | Impact | Consequence |
| --- | --- | --- | --- |
| | | • Breach of statutory requirements | |
| 15. Cybercrime | • Inadequate system abilities re security of data<br>• Inadequate controls and security protocol | • Data lost or compromised<br>• Incorrect member records<br>• Processing delays & errors<br>• Retiring staff will be paid late<br>• Reputational risk for the Fund<br>• Breach of statutory requirements | • Financial impact to members<br>• Loss of stakeholder confidence.<br>• Financial cost to the fund if interest has to be paid to members.<br>• Regulatory action |
| 16. Failure to keep pension records up-to-date and accurate | • Non-availability of pension / payroll systems<br>• Resource unavailable<br>• New staff undertaking duties<br>• Increased workload<br>• Failure to gain relevant information from employers to enable processing | • Processing delays<br>• Processing errors<br>• Retiring members will be paid late<br>• Reputational risk for the Fund<br>• Breach of statutory requirements | • Financial implications for members<br>• Loss of stakeholder confidence<br>• Financial cost to the fund if interest has to be paid to members<br>• Regulatory action |
| 17. Lack of expertise on Pension Committee, Pension Board or amongst officers | • Lack of training & continuous professional development<br>• Loss of key individuals | • Detrimental decision making<br>• Reputational risk for the Fund<br>• Breach of statutory requirements<br>• Failure to meet objectives | • Financial loss<br>• Inability to meet overall strategic objectives<br>• Increase in employer contribution requirements<br>• Regulatory action<br>• Loss of stakeholder confidence |
| 18. Over reliance on key officers | • Loss of key individuals<br>• Inability to recruit individuals with specialist skills & experience<br>• Inadequate governance arrangements<br>• Lack of specialist advisors to support | • Detrimental decision making<br>• Reputational risk for the Fund<br>• Breach of statutory requirements<br>• Failure to meet objectives | • Financial loss<br>• Inability to meet overall strategic objectives<br>• Increase in employer contribution requirements<br>• Regulatory action<br>• Loss of stakeholder confidence |
| 19. Failure to communicate adequately with stakeholders | • Inadequate communication policy<br>• Inadequate processes & protocols with employers and scheme members | • Scheme members not aware of their rights<br>• Employers not aware of regulations, procedures, etc. | • Sub-optimal decision making resulting to financial detriment of members<br>• Errors in members calculations |

| Risk Title | Causes | Impact | Consequence |
|---|---|---|---|
| | | • Reputational risk<br>• Breach of statutory requirements | • Loss of stakeholder confidence<br>• Regulatory action |
| 20. Employer Covenant Risk | • Change in employer actuarial profile which has resulted in significant increase in liability<br>• Unsuitable guarantee / financial health of employer | • Employers unable to financially provide for exit liability | • Inability to meet overall strategic objectives<br>• Financial impact on overall funding level<br>• Remaining employers required to accommodate the shortfall via increased contribution |
| 21. Risks in relation to use of 3rd party service providers | • Inadequate policy<br>• Poor due diligence and selection processes<br>• Poor contract management | • Poor decision making<br>• Failure of supplier adhering to contractual agreement<br>• Reputational risk | • Financial detriment to the fund<br>• Loss of stakeholder confidence |
| 22. Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD) | • Inadequate policy & practices<br>• Failing to understand incoming requirements<br>• Failing to plan and implement changes required<br>• Lack of knowledge & skills | • Poor decision making<br>• Non-compliant actions being taken<br>• Statutory breach<br>• Reputational risk | • Failing to meet strategic objectives<br>• Regulatory action<br>• Loss of stakeholder confidence |

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## The Administering Authority's Responsibilities

The Authority is required to:

- Make arrangement for the proper administration of the financial affairs of the Pension Funds in its charge and to secure that one of its officers has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Executive Director of Corporate Services.

- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far, as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).

- Approve the Annual Accounts for signature.

**Bailie Willie Sawers**
Chair of Pension sub-committee
Tayside Pension Funds
xx September 2024

**The Executive Director of Corporate Service's Responsibilities**

The Executive Director of Corporate Services is responsible for the preparation of the Pension Funds statement of accounts which, in terms of CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present a true and fair view of the financial position of the Pension Funds at the accounting date and their income and expenditure for the year (ended 31 March 2024).

In preparing these statements of accounts, the Executive Director of Corporate Services has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation
- Complied with the Code of Practice, except where stated in the Statement of Accounting Policies and Notes to the Accounts

The Executive Director of Corporate Services has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

**Statement of Accounts**

The Statement of Accounts presents a true and fair view of the financial position of the Pension Funds as at 31 March 2024, and their income and expenditure for the year ending 31 March 2024.

**Robert Emmott BSc CPFA**
Executive Director of Corporate Services
Dundee City Council
24 June 2024

## INDEPENDENT AUDITOR'S REPORT

The statement of accounts is subject to audit in accordance with the requirements of Part VII of the Local Government (Scotland) Act 1973.

Rachel Browne
Audit Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

# TAYSIDE PENSION FUND - FUND ACCOUNT

| 2022/23 £000 | | Note | 2023/24 £000 |
|---|---|---|---|
| | **Dealings with Members, Employers and other directly involved in the fund** | | |
| 84,524 | Employers' contributions | 5 | 91,564 |
| 30,210 | Employees' contributions | 5 | 32,200 |
| 3,954 | Transfers in from other pension funds | 7 | 8,008 |
| 118,688 | | | 131,772 |
| (132,928) | Benefits | 6 | (153,535) |
| (5,076) | Payments to and on account of leavers | 8 | (4,676) |
| (138,004) | | | (158,211) |
| (19,316) | Net Withdrawals from dealings with members | | (26,439) |
| (1,867) | Administration Expenses | 21 | (2,339) |
| **(21,183)** | **Net Withdrawals from dealings with Members including Administration Expenses** | | **(28,778)** |
| | **Returns on Investments** | | |
| 84,205 | Investment Income | 9 | 82,981 |
| (315,012) | Change in Market Value of Investments | 10a | 615,692 |
| (9,934) | Investment Management Expenses | 22 | (10,422) |
| **(240,741)** | **Net Returns on Investments** | | **688,251** |
| **(261,924)** | **Net increase/(decrease) in Fund during the year** | | **659,473** |
| **5,095,976** | **Opening Net Assets of the scheme** | | **4,834,052** |
| **4,834,052** | **Closing Net Assets of the scheme** | | **5,493,525** |

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

| 2022/23 £000 | | Note | 2023/24 £000 |
|---|---|---|---|
| | **Investment Assets** | 10 | |
| 623,655 | Bonds | | 264,751 |
| 2,113,207 | Equities | | 2,377,732 |
| 101,844 | Fixed Income Unit Trust | | 340,263 |
| 1,367,019 | Equity Unit Trust | | 1,569,650 |
| - | Multi Asset Credit | | 100,000 |
| 471,365 | Pooled Property Investments | | 485,213 |
| 8,374 | Derivatives | | 1,398 |
| 23,842 | Other Investment Assets | | 18,291 |
| 126,851 | Cash Deposits | | 322,002 |
| 4,836,157 | | | 5,479,300 |
| (17,965) | Investment Liabilities | 10 | (5,423) |
| **4,818,192** | **Total Net Investments** | **10** | **5,473,877** |
| 20,464 | Current Assets | 18 | 25,533 |
| 4,838,656 | | | 5,499,410 |
| (4,604) | Current Liabilities | 19 | (5,885) |
| **4,834,052** | **Net assets of the fund available to fund benefits at the end of the reporting period** | | **5,493,525** |

**Robert Emmott BSc CPFA**
Executive Director of Corporate Services
Dundee City Council
24 June 2024

The Net Asset Statement represents the value and liabilities as at 31 March 2024 (excluding liability to pay pensions).

The Unaudited Accounts were issued on 24 June 2024 and the Audited Accounts were authorised for issue on xxx.

# NOTES TO TAYSIDE PENSION FUND FINANCIAL STATEMENTS

**1 - The Local Government Pension Scheme**

The LGPS is one of the largest public sector pension schemes in the UK. It is a nationwide pension scheme for people working in local government or working for other types of employer participating in the scheme. The LGPS in Scotland is administered locally through 11 local pension funds.

The LGPS is a statutory scheme established under primary legislation of the Superannuation Act 1972 and the Public Services Pensions Act 2013. Changes to scheme rules are discussed at national level by employee and employer representatives but can only be amended with the approval of the Scottish Parliament and are issued as Scottish Statutory Instruments (SSIs).

Dundee City Council is the administering authority for Tayside Pension Fund.

Tayside Pension Fund is maintained for the benefit of its membership (including existing and deferred pensioners). This comprises the majority of Local Government employees within Dundee City Council, Perth and Kinross Council and Angus Council as well as 38 other bodies. Teachers are not included in the Scheme as they have a separate, nationally established, statutory arrangement.

**2 - Basis of Preparation of the Financial Statements**

The financial statements summarise the Fund's transactions for the 2023/24 financial year and its position as at the 31 March 2024. The accounts have been prepared on a going concern basis, and in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the Local Government Pension Scheme Fund Accounts - example accounts and disclosure checklist published by the Chartered Institute of Public Finance Accountants (CIPFA).

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. Local authorities responsible for administering a pension fund that forms part of the LGPS are required by The Local Government Pension Scheme (Scotland) Regulations 2014 to publish a pension fund annual report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

**3 - Statement of Accounting Policies**

A summary of the more important accounting policies, which have been consistently applied, is set out below: -

**Investments**

Investments are included at market values, which are assessed as follows: -

A - UK quoted securities are valued at "bid" market prices at close of business on the last working day of the financial year.

B - Overseas securities are valued at "bid" market prices from the relevant overseas stock exchanges converted at closing rates of exchange on the last day of the financial year.

C - Unlisted investments, which comprise the Fund Manager's Unit Trusts and Open-Ended Investment Companies, are valued at "bid" market prices on the last working day of the financial year as supplied by the Fund Manager.

**Income and Expenditure**

The accounts have been prepared on an accruals basis; that is income and expenditure is included as it is earned or incurred, not as it is received or paid, except for Transfer Values which are included when they are paid or received.

**Investment Income**

Income from fixed interest, index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other Marketable Securities is taken into account on the date when stocks are quoted ex-dividend.

**Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents comprise short term lending that is repayable on demand or within 3 months of the Balance Sheet date and that is readily convertible to known amounts of cash with insignificant risk of change in value.

**Contributions**

Contributions represent the amounts received from organisations participating in the Fund, these may be from the administering authority, and other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. Employee and employer's contributions due as at 31 March 2024 have been accrued. In accordance with Funding Strategy Statement, employers have the option to prepay their pension contributions which will generate a saving based on an actuarial calculation. Three employers elected to make an upfront payment of their 2023/24 employer contributions in April 2023 with a balancing payment in April 2024.

**Foreign Currency**

Income and expenditure arising from transactions denominated in a foreign currency are translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred. Where the transaction is to be settled at a contracted rate that rate is used.

**Investment Management Expenses**

Investment Management expenses consist of direct charges in line with Management Agreements, Management Charges levied on pooled funds, overseas charges and non-recoverable withholding tax, less Brokers' commission rebate.

**Administrative Overheads and Expenses**

The Pension Administration and Pension Investment sections of Dundee City Council are responsible for administering the Pension Fund. The above sections receive an allocation of the overheads of the Council, this is based on the amount of central services consumed. Costs which can be directly charged to the Fund during the financial year will be.

**Acquisition Cost**

Any acquisition costs of investments are included in the Book Cost of the investment.

**Additional Voluntary Contributions**

Additional voluntary contributions are separately invested from those of the funds. Additional voluntary contributions are not included in the financial statements in accordance with section 5(2)(c) of The Pensions Scheme (Management and Administration of Funds) Regulations 1998.

**Transfers to and from other Schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In. Bulk (group) transfers are accounted for on an accrual basis in accordance with the terms of the transfer agreement.

**Taxation**

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

**VAT**

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

**Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Derivatives are valued at fair value on the following bases: assets at bid price, and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund Account. The value of open futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The value of forward foreign exchange contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the contract were matched at the year-end with an equal and opposite contract.

**Financial Assets**

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

**Financial Liabilities**

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

**Fair Value Measurement**

The Fund measures its financial assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability.

**Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits.

**4 - Related Party Transactions and Balances**

All employer member bodies are by nature related parties of the Fund. Tayside Pension Fund is administered by Dundee City Council, consequently there is a strong relationship between the Council and Pension Fund. Note 5 outlines the pension contributions paid by the Council, as administering authority, to the Fund in relation to 2023/24.

A remuneration report providing disclosures in respect of the Executive Director Corporate Services, the Chief Executive, and the members of the Pension Sub-Committee and Pension Board who hold the authority and responsibility for the Tayside Pension Fund, is included within Dundee City Council's Annual Report and Accounts which are available from the Council's website (www.dundeecity.gov.uk). As noted above, all senior officers, Sub-committee and Board representatives are members of Tayside Pension Fund.

Details of the transactions and balances with the 10 largest employers are disclosed in the fund account and net asset statement with further analysis provided below -

| Employer | Employer type | Transactions 2022/23 | Balances due 31 March 2023 | Transactions 2023/24 | Balances due 31 March 2024 |
|---:|---:|---:|---:|---:|---:|
| Dundee City Council | Administering | 33,304 | 2,789 | 35,877 | 3,596 |
| Angus Council | Scheduled | 19,578 | 1,650 | 21,155 | 1,735 |
| Care Inspectorate | Admitted | 6,321 | 1,310 | 6,801 | 597 |
| Dundee and Angus College | Scheduled | 2,918 | 65 | 2,462 | 53 |
| Leisure and Culture Dundee | Admitted | 2,250 | - | 2,563 | - |
| Perth and Kinross Council | Scheduled | 26,539 | 2,272 | 29,098 | 2,697 |
| Scottish Social Services Council | Admitted | 2,559 | 439 | 2,647 | 202 |
| Tayside Contracts | Scheduled | 7,726 | - | 8,361 | 3 |
| Tayside Police Civilians | Scheduled | 4,268 | - | 5,022 | - |
| University of Abertay Dundee | Admitted | 1,795 | - | 1,841 | 60 |

**5 – Contributions Receivable**

The total contributions receivable, analysed between administering authority, other scheduled bodies and admitted bodies, were as follows -

| **2023/24** | Administering Authority £000 | Other Scheduled Bodies £000 | Admitted Bodies £000 | Total £000 |
|---|---:|---:|---:|---:|
| Member contributions | 9,043 | 17,727 | 5,430 | 32,200 |
| Employer contributions | 25,189 | 50,112 | 14,614 | 89,915 |
| Strain on Fund | 2 | 1,441 | 206 | 1,649 |
| Deficit Recovery | - | - | - | - |
| Total | 34,234 | 69,280 | 20,250 | 123,764 |

| 2022/23 | Administering Authority £000 | Other Scheduled Bodies £000 | Admitted Bodies £000 | Total £000 |
|---|---|---|---|---|
| Member contributions | 8,459 | 16,627 | 5,124 | 30,210 |
| Employer contributions | 23,417 | 46,536 | 13,619 | 83,572 |
| Strain on Fund | 3 | 855 | 49 | 907 |
| Deficit Recovery | - | - | 45 | 45 |
| Total | 31,879 | 64,018 | 18,837 | 114,734 |

***** Deficit recovery amounts relate to the cessation valuation payments due from two exiting employer bodies during 2022/23.

**6 – Benefits Payable**

The total benefits payable, analysed between administering, other scheduled bodies and admitted bodies, were as follows -

| | Total Benefits Payable (incl. Lump Sums) | | Lump sums (Retirement and Death Benefits) | |
|---|---|---|---|---|
| | 2022/23 | 2023/24 | 2022/23 | 2023/24 |
| | £000 | £000 | £000 | £000 |
| Administering Authority | 46,510 | 52,584 | 9,071 | 11,299 |
| Other Scheduled Bodies | 67,338 | 77,848 | 14,949 | 18,534 |
| Admitted Bodies | 19,080 | 23,103 | 3,461 | 5,240 |
| | **132,928** | **153,535** | **27,481** | **35,073** |

**7 – Transfers In from other Pension Funds**

The total transfer values received, analysed between administering, other scheduled bodies and admitted bodies, were as follows -

| | Transfer Values Received | |
|---|---|---|
| | 2022/23 | 2023/24 |
| | £000 | £000 |
| Administering Authority | 986 | 940 |
| Other Scheduled Bodies | 1,328 | 3,551 |
| Admitted Bodies | 1,640 | 3,517 |
| | **3,954** | **8,008** |

**8 – Payments to and on Account of Leavers**

The total transfer values paid and refunds, analysed between administering, other scheduled bodies and admitted bodies, were as follows -

| | Transfer Values Paid | | Refunds | |
|---|---|---|---|---|
| | 2022/23 | 2023/24 | 2022/23 | 2023/24 |
| | £000 | £000 | £000 | £000 |
| Administering Authority | 1,908 | 1,796 | 10 | 92 |
| Other Scheduled Bodies | 2,192 | 2,076 | 52 | 187 |
| Admitted Bodies | 877 | 434 | 37 | 91 |
| | **4,977** | **4,306** | **99** | **370** |

**9 - Investment Income**

| | 2022/23 £000 | 2023/24 £000 |
|---|---|---|
| Bonds | 26,469 | 20,670 |
| Dividends from Equities | 37,993 | 40,065 |
| Income from Pooled Investment Vehicles | 18,415 | 17,654 |
| Interest on Custody Cash Deposits | 1,277 | 4,078 |
| Securities Lending | 234 | 317 |
| Interest on Cessation Debt | 181 | 54 |
| Interest on Internal Cash Deposits | 277 | 893 |
| | 84,846 | 83,731 |
| Withholding Tax | (641) | (750) |
| | **84,205** | **82,981** |

**10 – Investments**

| Market Value as at | 31 March 2023 | 31 March 2024 |
|---|---|---|
| **Investment Assets** | £000 | £000 |
| Bonds | 623,655 | 264,751 |
| Equities | 2,113,207 | 2,377,732 |
| Pooled Investments | 1,468,863 | 1,909,913 |
| Multi-Asset | - | 100,000 |
| Pooled Property Investments | 471,365 | 485,213 |
| Derivative contracts | 8,374 | 1,398 |
| Cash deposits | 126,851 | 322,002 |
| Investment Income due | 16,325 | 11,985 |
| Amounts receivable for sales | 5,833 | 6,306 |
| Other Investment assets | 1,684 | - |
| **Total Investment Assets** | **4,836,157** | **5,479,300** |

| | | |
|---|---|---|
| **Investment Liabilities** | | |
| Derivative contacts` | (3,657) | (782) |
| Amounts payable for purchases | (9,371) | (3,817) |
| Amounts payable for pending spot FX | (238) | - |
| Other Investment liabilities | (4,699) | (824) |
| **Total Investment Liabilities** | **(17,965)** | **(5,423)** |
| | | |
| **Net Investment Assets** | **4,818,192** | **5,473,877** |

**10a Reconciliation of Movements in Investments and Derivatives**

| | Market value at 31/03/23 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Market value at 31/03/24 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Bonds | 623,655 | 170,923 | (160,826) | (369,001) | 264,751 |
| Equities | 2,113,207 | 466,928 | (524,027) | 321,623 | 2,377,731 |
| Pooled Investments | 1,468,863 | 143,364 | (264,244) | 661,931 | 2,009,914 |
| Pooled Property Investments | 471,365 | 44,687 | (19,549) | (11,290) | 485,213 |
| | 4,677,090 | 825,902 | (968,646) | 603,263 | 5,137,609 |
| Derivative Contracts | 4,717 | 121,117 | (139,083) | 13,865 | 616 |
| | 4,681,807 | 947,019 | (1,107,729) | 617,128 | 5,138,225 |
| Other Investment Balances | (3,015) | | | (1,857) | (824) |
| Cash Deposits | 126,851 | | | 1,944 | 322,002 |
| Amounts receivable for sales | 5,833 | | | (2) | 6,306 |
| Investment income due | 16,325 | | | - | 11,985 |
| Spot FX contracts | (238) | | | (1,524) | - |
| Amounts payable for purchases | (9,371) | | | 3 | (3,817) |
| Net Financial Assets | **4,818,192** | | | **615,692** | **5,473,877** |

**10b Investments Analysed by Fund Manager**

The Fund's investment assets are under the management of five external fund managers. At 31 March 2024 the market value of these investment assets was £5,473.9m (2023 £4,818.2m), managed as follows:

| | | 2023 | | 2024 | |
|---|---|---|---|---|---|
| Fund Manager | Mandate | £000 | £000 | £000 | % |
| Schroders Property | Property | 507,856 | 10.5 | 514,560 | 9.4 |
| Fidelity | Global Equity | 1,126,046 | 23.4 | 1,271,643 | 23.2 |
| Baillie Gifford | Global Equity | 600,809 | 12.5 | 710,675 | 13.0 |
| Goldman Sachs | Bond | 404,641 | 8.4 | 53 | 0.1 |
| Fidelity | Bond | 361,370 | 7.5 | 375,893 | 6.9 |
| Baillie Gifford | UK Equity | 457,347 | 9.5 | 434,001 | 7.9 |
| Legal & General | Passive Equity | 1,305,661 | 27.1 | 1,518,857 | 27.7 |
| GSAM Broad Street | Infrastructure | 7,204 | 0.1 | 7,910 | 0.1 |
| Northern Trust | Securities Lending | - | - | 11 | - |
| Baillie Gifford | Equity (Positive Change) | 47,258 | 1.0 | 50,794 | 0.9 |
| The Partners Fund | Private Markets | - | - | 250,131 | 4.6 |
| LGIM Buy and Maintain | Bond | - | - | 239,303 | 4.4 |
| Apollo Total Return Fund | Multi-asset | - | - | 100,046 | 1.8 |
| **Net Investment Assets** | | **4,818,192** | **100.0** | **5,473,877** | **100.0** |

The following investments represent more than 5% of the net assets of the scheme as at 31 March 2024:

| | Market value as at 31/03/2023 £000 | % of total fund | Market value as at 31/03/2024 £000 | % of total fund |
|---|---|---|---|---|
| LGIM All World Equity Index (OFC) | 979,153 | 20.3 | 1,122,324 | 20.5 |
| LGIM Future World Index (OFC) | 326,508 | 6.8 | 396,533 | 7.2 |
| | 1,305,661 | | 1,518,857 | |

**11 - Analysis of Derivatives**

The Funds approach to derivatives is to allow individual managers to participate in derivative contracts subject to limits set out in their investment management agreements. The Fund holds cash assets to allow for cashflow purposes. Fund managers will also on occasion hold forward currency contracts.

**Futures**

| Type | Expires | Economic exposure £000 | Market Value as at 31/03/2023 £000 | Economic exposure £000 | Market Value as at 31/03/2024 £000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| UK Fixed Income Futures | Less than one year | 40,927 | 1,062 | 78,753 | 1,328 |
| Overseas Fixed Income Futures | Less than one year | 13,717 | 453 | 16,868 | 40 |
| **Total assets** | | | **1,515** | | **1,368** |

| | | | | | |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| UK Fixed Income Futures | Less than one year | (23,150) | (644) | - | - |
| Overseas Fixed Income Futures | Less than one year | (81,983) | (2,514) | (44,843) | (544) |
| **Total liabilities** | | | **(3,158)** | | **(544)** |
| **Net futures** | | | **(1,643)** | | **824** |

**Open Forward Currency Contracts**

| Settlements | Currency bought | Local Value 000 | Currency sold | Local Value 000 | Asset value 000 | Liability value 000 |
|---|---|---|---|---|---|---|
| Up to one month | GBP | 65 | EUR | (76) | 1 | - |
| Up to one month | GBP | 43 | USD | (54) | - | - |
| One to six months | GBP | 38,365 | USD | (48,620) | - | (114) |
| One to six months | USD | 9,359 | GBP | (7,383) | 24 | - |
| One to six months | GBP | 38,266 | EUR | (44,829) | 5 | (124) |
| **Open forward currency contracts at 31 March 2024** | | | | | **30** | **(238)** |
| **Net forward currency contracts at 31 March 2024** | | | | | | **(208)** |

| Prior year comparative: | Asset value | Liability value |
|---|---|---|
| Open forward currency contracts at 31 March 2023 | 6,859 | (499) |
| Net forward currency contracts at 31 March 2023 | | 6,360 |

The economic exposure represents the nominal value of securities purchased under future contracts and therefore the value is subject to market movements. All future contracts are exchange traded. The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction.

Futures and Forwards are used for the purposes of risk management. The Portfolio uses futures and forward currency contracts to attempt to protect the value of securities and related receivables and payables against changes in future foreign exchange rates.

**12 - Fair Value**

**Basis of Valuation**

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. There has been no change in the valuation techniques used during the year.

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1** – where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted bonds and unit trusts.

**Level 2** – where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

**Level 3** – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The valuation basis for each category of investment asset is set out below:

| Description of asset | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|
| Level 1 | | | |
| Quoted equities | The published bid market price on the final day of the accounting period. | Not required. | Not required. |
| Cash and cash equivalents | Carrying value is deemed to be fair value because of the short-term nature of these financial instruments. | Not required. | Not required. |
| Amounts receivable From investment sales | Carrying value is deemed to be fair value because of the short-term nature of these financial instruments. | Not required. | Not required. |
| Investment debtors and creditors | Carrying value is deemed to be fair value because of the short-term nature of these financial instruments. | Not required. | Not required. |
| Level 2 | | | |
| Gilts, TIPS (Treasury Inflation Protected Securities) | Fixed income securities are priced based on evaluated prices provided by independent pricing services. | Evaluated price feeds. | Not required. |
| Pooled investments – equities, fixed income, and managed property funds | Closing bid price where bid and offer price are published Closing single price where single price published. | NAV – based pricing set on a forward pricing basis. | Not required. |
| Level 3 | | | |
| Directly held property / Affordable Housing | Valued at year end by external valuer DM Hall / Allsop in accordance with the Royal Institute of Chartered Surveyors' Red Book Global Valuation Standards (introduced with effect from 31 January 2020). | • Existing lease terms<br>• Nature of tenancies<br>• Covenant strength<br>• Vacancy levels<br>• Estimated rental growth<br>• Discount rate | Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices. |

| | | | |
|---|---|---|---|
| Private Equity / Infrastructure / Private Debt | Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board's Special Valuation Guidance (March 2020). | • EBITDA multiple<br>• Revenue multiple<br>• Discount for lack of marketability<br>• Control Premium | Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts. |

**Fair Value Hierarchy**

| Market Value as at 31/03/2024 | Quoted market price<br>Level 1<br>£000 | Using observable inputs<br>Level 2<br>£000 | With significant observable inputs<br>Level 3<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss | 2,852,824 | 2,621,546 | 4,930 | 5,479,300 |
| Non-financial assets at fair value through profit and loss | - | - | - | - |
| Financial liabilities at a fair value through profit and loss | (1,367) | (4,056) | - | (5,423) |
| **Net financial assets** | **2,851,457** | **2,617,490** | **4,930** | **5,473,877** |

| Market Value as at 31/03/2023 | Quoted market price<br>Level 1<br>£000 | Using observable inputs<br>Level 2<br>£000 | With significant observable inputs<br>Level 3<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss | 2,261,902 | 2,567,656 | 6,599 | 4,836,157 |
| Non-financial assets at fair value through profit and loss | - | - | - | - |
| Financial liabilities at a fair value through profit and loss | (7,538) | (10,427) | - | (17,965) |
| **Net financial assets** | **2,254,364** | **2,557,229** | **6,599** | **4,818,192** |

**12a Reconciliation of Fair Value Measurements within Level 3**

| | Market Value as at 31/03/2023 £000 | Transfers in/out of Level 3 £000 | Purchases £000 | Sales £000 | Unrealised gains (losses) £000 | Realised gains (losses) £000 | Market Value as at 31/03/2024 £000 |
|---|---|---|---|---|---|---|---|
| UK property Funds | 6,591 | - | 4,031 | (6,404) | 276 | 428 | 4,922 |
| Overseas Equities | 8 | - | - | - | - | - | 8 |
| **Total** | **6,599** | **-** | **4,031** | **(6,404)** | **276** | **428** | **4,930** |

During March 2024, officers concluded a review of level 3 assets in consultation with Fund Managers, this review led to the reclassification of four property funds which were erroneously allocated to level 3 in 2022/23 annual accounts.

**12b Sensitivity of Assets Valued at Level 3**

Having analysed historical data and current market trends, and consulted with independent investment advisors (ISIO), Tayside Pension Fund has determined that the valuation methods are likely to be accurate to within the following ranges, and has set out the below consequent potential impact on the closing value of the investments held at 31 March 2024.

| | Assessed valuation range (+/-) | Value as at 31/03/2024 £000 | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| UK property Funds | 13% | 4,922 | 5,561 | 4,281 |
| Overseas Equities | 21% | 8 | 10 | 6 |
| **Total** | | **4,930** | **5,571** | **4,287** |

**13 - Financial Instruments**

**13a Classification of Financial Instruments**

| Market Value as at 31/03/2023 | | | | Market Value as at 31/03/2024 | | |
|---|---|---|---|---|---|---|
| Designated as fair value through profit and loss £000 | Loans and receivables £000 | Financial liabilities at amortised cost £000 | | Designated as fair value through profit and loss £000 | Loans and receivables £000 | Financial liabilities at amortised cost £000 |
| | | | **Financial assets** | | | |
| 623,655 | - | - | Bonds | 264,751 | - | - |
| 2,113,207 | - | - | Equities | 2,377,732 | - | - |
| 1,468,863 | - | - | Pooled investments | 2,009,914 | - | - |
| 471,365 | - | - | Pooled property investments | 485,213 | - | - |
| - | - | - | Private equity / infrastructure | - | - | - |
| 8,374 | - | - | Derivative contracts | 1,398 | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| 52,219 | 74,632 | - | Cash | 10,969 | 311,032 | - |
| 1,684 | 16,325 | - | Other investment balances | - | 11,985 | - |
| - | 5,833 | - | Debtors | - | 6,306 | - |
| **4,739,367** | **96,790** | **-** | | **5,149,977** | **329,323** | **-** |
| | | | **Financial liabilities** | | | |
| (3,656) | - | - | Derivative contracts | (782) | - | - |
| - | - | (4,938) | Other Investment balances | - | - | (824) |
| - | - | (9,371) | Creditors | - | - | (3,817) |
| **(3,656)** | **-** | **(14,309)** | | **(782)** | **-** | **(4,641)** |
| **4,735,711** | **96,790** | **(14,309)** | **Total** | **5,149,195** | **329,323** | **(4,641)** |
| | **4,818,192** | | **Grand Total** | | **5,473,877** | |

**13b Net Gains and Losses on Financial Instruments**

| Market Value as at 31/03/2023 | | Market Value as at 31/03/2024 |
|---|---|---|
| £000 | **Financial Assets** | £000 |
| (291,788) | Fair value through profit and loss | 603,263 |
| 4,596 | Loans and receivables | 1,947 |
| | **Financial Liabilities** | |
| (26,401) | Fair value through profit and loss | 13,865 |
| (1,419) | Loans and receivables | (3,383) |
| (315,012) | | 615,692 |

**14 - Transaction Costs**

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £0.704m (2023 £0.765m).

**15 - Stock Lending**

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2024 was £73.1m (2023 £67.7m). These assets continue to be recognised in the Fund's financial statements. No liabilities are associated with the loaned assets. Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

**16 - Additional Voluntary Contributions (AVCs)**

As AVCs are invested separately from the investments of the scheme itself and secure extra benefits on a money purchase basis for members that have elected to contribute, it has been decided in accordance with The Pensions Scheme (Management and Investment of Funds) Regulations 1998 not to include the relevant figures in the financial statements.

| Net Asset Value | 31 March 2023 | 31 March 2024 |
|---|---|---|
| | £000 | £000 |
| Prudential | 10,465 | 12,621 |
| Standard Life | 3,516 | 3,477 |

| Contributions Received | 2022/23 | 2023/24 |
|---|---|---|
| | £000 | £000 |
| Prudential | 2,698 | 3,816 |
| Standard Life | 182 | 201 |

**17 - Actuarial Present Value of Promised Retirement Benefits**

The actuarial value of the promised retirement benefits as at 31 March 2024, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £3,981.0m (2023 £3,521.7m) of which £3,921.8m (2023 £3,447.5m) is a vested obligation and £59.2m (2023 £74.2m) is a non-vested obligation. This figure is used for statutory accounting purposes by Tayside Pension Fund and complies with the requirements of IAS26. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting of contributions payable to the Fund.

An allowance was made for the potential impact of the McCloud & Sargeant judgement in the results provided to the Fund at the last accounting date and therefore is already included in the starting position for this report. This allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

As noted above, the liabilities above are calculated on an IAS19 basis and therefore will differ from the results of the 2023 triennial funding valuation because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

| IAS19 Assumptions Used | 2022/23 | 2023/24 |
|---|---|---|
| | % | % |
| Inflation / pension increase rate | 2.90 | 2.90 |
| Salary increase rate | 3.90 | 3.90 |
| Discount rate | 4.80 | 4.85 |

**18 – Current Assets**

| | 2022/23 | 2023/24 |
|---|---|---|
| | £000 | £000 |
| Contributions Due from Employers | 10,932 | 9,984 |
| Cash and Bank | 7,670 | 13,260 |
| Pending sales ledger income | 48 | 215 |
| Employer cessation valuation | 1,790 | 1,769 |
| Miscellaneous debtors | 24 | 305 |
| | 20,464 | 25,533 |

**19 – Current Liabilities**

| | 2022/23 | 2023/24 |
|---|---|---|
| | £000 | £000 |
| Unpaid benefits | 2,099 | 3,346 |
| Custodian fees | 23 | 81 |
| Cash and Bank | 158 | 39 |
| Investment Manager Fees | 2,011 | 2,161 |
| Consultancy fees | 17 | 30 |
| Pending purchase ledger payments | 50 | 1 |
| HMRC | 206 | 140 |
| Audit Services | 20 | 79 |
| Miscellaneous creditors | 20 | 8 |
| | 4,604 | 5,885 |

**20 - Audit Fee & Other Services**

The Fund have been subject to separate external and internal audits to that of the Council. The Fund incurred an external audit fee of £31,334 for the financial year (2023 £28,420). During 2023/24 financial year the Fund received no other services from Audit Scotland. The Fund also incurred an internal audit fee of £100,996 from PwC (2023 £37,280)

**21 – Management Expenses**

| | 2022/23 £000 | 2023/24 £000 |
|---|---|---|
| Administrative costs | 1,752 | 2,339 |
| Investment management expenses | 9,934 | 10,422 |
| Oversight and governance costs | 115 | 101 |
| | 11,801 | 12,762 |

**22 – Investment Expenses**

| | 2022/23 £000 | 2023/24 £000 |
|---|---|---|
| Management fees | 9,048 | 9,431 |
| Custody fees | 68 | 103 |
| Performance monitoring service | 25 | 25 |
| Investment consultancy | 29 | 159 |
| Commission recapture | (1) | (2) |
| Transaction costs | 765 | 706 |
| | 9,934 | 10,422 |
| Investment Management fees as a percentage of Net Financial Assets | 0.21% | 0.19% |

| | Management fees £000 | Transaction costs £000 | Total £000 |
|---|---|---|---|
| Bonds | 859 | 125 | 984 |
| Equities | 6,459 | 579 | 7,038 |
| Pooled investments | 191 | - | 191 |
| Property | 1,764 | - | 1,764 |
| Alternatives | 63 | - | 63 |
| Securities Lending | 95 | - | 95 |
| | 9,431 | 704 | 10,135 |
| Custody fees | | | 128 |
| Consultancy fees | | | 159 |
| Total | | | 10,422 |

### 23 – Nature and Extent of Risks arising from Financial Instruments

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure market risk (other price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

The Career Average Revalued Earnings (CARE) scheme came into effect on 1 April 2015. There is an increased risk of error/communication failure due to lack of awareness of new scheme regulations. The Fund manages this risk through employer updates, a newsletter, and specialist sessions at an annual forum.

Responsibility for managing the Fund's risk rests with the Pension Sub-Committee. A risk register for the Fund has been established to identify and analyse the risks that the Fund faces.

**Market Risk**

Market risk is the risk of loss from fluctuations in currency, interest rate risk and other price risk. The level of risk exposure depends on, but is not limited to, market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geography, industry sectors and individual securities. To mitigate market risk, the Fund and its investment adviser undertake appropriate monitoring of market conditions and benchmark analysis.

**Other Price Risk**

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

The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification, and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expended investment return movements, in consultation with the Council's investment adviser, it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

| | Potential Market Movement |
|---|---|
| | +/- per annum |
| **Equities** | |
| UK | 20.5% |
| Emerging Markets | 28.0% |
| Global | 21.0% |
| **Bonds** | |
| UK Index-Linked Gilts | 12.0% |

| | |
|---|---|
| UK Gilts | 11.5% |
| UK Corporate | 11.0% |
| Multi-asset Credit | 9.0% |
| Other | 7.5% |
| **Property** | 13.0% |
| **Alternatives** | 18.0% |
| **Cash** | 1.5% |

Source: ISIO

Potential price changes are determined based on the historical volatility of asset class returns and expected future returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets and are based on the investment adviser's 10-year capital market assumptions for asset class volatilities as at 31 March 2024. If the market price of the Fund's investments increases/decreases in line with the above, the change in the net assets available to pay benefits in the market price could be as follows:

| | | | Potential change in year in the net assets available to pay benefits | |
|---|---|---|---|---|
| | Value £ | % Change | Favourable Market Movement £ | Unfavourable Market Movement £ |
| **Equities** | | | | |
| UK | 496,074,331 | 20.5% | 597,769,569 | 394,379,093 |
| Emerging Markets | - | 28.0% | - | - |
| Global | 3,451,308,166 | 21.0% | 4,176,082,881 | 2,726,533,451 |
| **Bonds** | | | | |
| UK Index-Linked Gilts | 100,960,156 | 12.0% | 113,075,375 | 88,844,937 |
| UK Gilts | 688,824 | 11.5% | 768,039 | 609,609 |
| UK Corporate | 114,394,231 | 11.0% | 126,977,597 | 101,810,866 |
| Multi-asset Credit | 100,000,000 | 9.0% | 109,000,000 | 91,000,000 |
| Other | 389,794,598 | 7.5% | 419,029,193 | 360,560,003 |
| **Property** | 485,212,561 | 13.0% | 548,290,194 | 422,134,928 |
| **Alternatives** | - | 18.0% | - | - |
| **Cash** | 335,443,733 | 1.5% | 340,475,389 | 330,412,077 |

Source: ISIO/Northern Trust

**Interest rate sensitivity analysis**

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

The Fund's interest rate risk is routinely monitored by the Fund and its investment adviser, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund recognises that interest rates can vary, and can affect both income to the Fund and the value of the net assets available to pay benefits.

The Fund's direct exposure to interest rate movement as at 31 March 2024 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

The analysis assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates (assuming a parallel shift in the interest rate curve):

| Asset Type | Carrying amount as at 31 March 2024 (£) | Potential change in year in the net assets available to pay benefits £ | |
|---|---|---|---|
| | | 100bps | -100bps |
| Fixed Interest Securities | 604,053,881 | (27,923,364) | 27,923,364 |
| Index-Linked Securities | 100,960,156 | (19,384,350) | 19,384,350 |
| Cash | 322,001,817 | - | - |
| Total change in assets available | 1,027,015,854 | (47,307,714) | 47,307,714 |

Source: Northern Trust

A 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. A 1% increase in interest rates may potentially increase the interest rate income received on cash and cash equivalents by £3,220,018 and vice versa.

**Currency Risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund does not have a currency hedging programme but individual investment managers may hedge some currencies from time to time on a tactical basis. As any hedging could be temporary, the analysis below does not allow for any currencies that are hedged at 31 March 2024. The Fund is invested in equities and bonds that are denominated in currencies other than £UK. The following table summarises the Fund's currency exposure at 31 March 2024 -

| Currency exposure – asset type | Asset value (£) |
|---|---|
| | 31 March 2024 |
| Overseas quoted securities | 1,881,657,753 |
| Overseas unit trusts | 1,569,650,413 |
| Overseas public sector bonds (quoted) | 4,424,892 |
| Overseas corporate bonds (quoted) | 146,570,885 |
| **Total Overseas assets** | **3,602,303,943** |

Source: Northern Trust

**Credit risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities. The selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund has an Annual Treasury Strategy which sets out the approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The cash holding under its treasury management arrangements at 31 March 2024, including current account cash, was £13.288m (2022: £7.710m). This was held with the following institutions -

| | Credit Rating | Balance as at 31 March 2023 £'000 | Balance as at 31 March 2024 £'000 |
|---|---|---|---|
| Money Market Funds - | | | |
| Aberdeen Standard | AAAmf | - | - |
| Federated | AAAmf | 1,720 | 4,070 |
| LGIM | AAAmf | 5,950 | 9,190 |
| Current account - | | | |
| Royal Bank of Scotland | F1 | 40 | 28 |

**Liquidity Risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash.

**24 – Assumptions made about the Future and Other Major Sources of Estimation Uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made with consideration for historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from assumptions and estimates.

The items in the net assets statement as at 31 March 2024 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows -

**Actuarial present value of promised retirement benefits (note 17)**

**Uncertainties**

Estimation of the net liability depends on a number of complex judgements relating to discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries, Barnett Waddingham, is engaged to provide the fund with expert advice about the assumptions to be applied.

| **Effect if actual results differ from assumptions** | £000 | £000 |
|---|---|---|
| Present value of total obligation | 3,980,984 | |
| | | |
| **Sensitivity to** | **+0.1%** | **-0.1%** |
| Discount rate | 3,919,105 | 4,044,447 |
| Long term salary increase | 3,987,118 | 3,974,889 |
| Pension increases and deferred revaluation | 4,039,468 | 3,923,982 |
| | | |
| **Sensitivity to** | **+1 year** | **-1 year** |
| Life expectancy assumptions | 4,128,533 | 3,839,109 |

**Financial Assets and Liabilities measured at fair value**

**Uncertainties**

When the fair value of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using recognised valuation techniques but as these investments are not publicly listed there is a degree of estimation involved in the valuation.

**25 – Post Balance Sheet Event**

The unaudited Statement of Accounts was issued by the Executive Director of Corporate Services on 24 June 2024. Events taking place after this date are not reflected in the financial statements or disclosure notes. There have been no material events since the date of the Net Asset Statement which have required any adjustments to these accounts.

## FUNDING

An actuarial valuation is required every three years in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014. 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.

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 actuarial valuation is essentially a measurement of the Fund's liabilities, having specific regard to:

- 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.

The 2023 actuarial valuation was undertaken as at 31st March 2023 and the outcome of this valuation sets the employer's rate of contributions for the 3 years from 1st April 2024. The outcome of the 2023 actuarial valuation states that the common contribution rate for active employers for financial years 2024/25, 2025/26 and 2026/27 will reduce to 15.7%, with exception of Travel Dundee where a fixed 40% employer contribution is applicable, or employers who have closed the scheme to new members. Their contribution rate will be set individually by the Fund's actuaries based upon their specific profile.

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 an annual 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".

### FUNDING STRATEGY STATEMENT

**OVERVIEW**

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).

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.

**PURPOSES OF THE STATEMENT**

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.

**CONSULTATION**

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.

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)

The Fund Actuary, Barnett Waddingham, has also been consulted on the contents of this Statement.

**PURPOSE AND AIMS OF THE FUND**

**Purpose of the Fund**

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**

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.***

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).

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.

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.

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.

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.***

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.***

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.***

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.

**RESPONSIBILITIES OF THE KEY PARTIES**

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Employers and the Fund Actuary.

**Administering Authority**

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.***

Individual employers must pay contributions in accordance with Regulations 62, 63 and 64of the Regulations.

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.

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.

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.***

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.***

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.***

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.***

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.***

The Administering Authority monitors the investment performance and the financial and funding position of the Fund on a quarterly basis.

The Statement of Investment Principles and Funding Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

**Individual Employers**

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**

The key responsibilities of the Fund Actuary are set out below.

***The first key responsibility is to prepare valuations.***

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.

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.***

Such advice will take account of the financial and funding position and Funding Strategy Statement, along with other relevant matters.

**SOLVENCY**

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.

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.

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.

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.

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.

**FUNDING STRATEGY**

**Valuation Methods**

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.

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**

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.

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**

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**

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**

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**

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.

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.

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.

The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

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**

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**

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.

Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

**Pooling of employers**

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.

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.

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**

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.

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.***

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 prudent than a gilts-cessation basis but should lead to more affordable cessation liabilities while still 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).

If an employer (other than a transferee* 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.

In recent years the Administering Authority has adopted a policy of requiring admission bodies (other than transferee* admission bodies) to obtain a guarantor. A guarantor is required to agree that it will meet the shortfall if the admission body closes and cannot pay the contributions due.

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.

The position is different for transferee* 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.

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**

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**

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**

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.

In the case that prepayment is chosen, the advance payment is due by 30th April each year with reductions applied in line with the financial assumptions set by the Fund Actuary.

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.

**IDENTIFICATION OF RISKS AND COUNTER MEASURES**

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)**

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.

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* admitted bodies.

**Regulatory & Legislative**

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**

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)**

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.

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**

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**

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**

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**

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**

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.

**LINKS TO INVESTMENT POLICY AS SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES**

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.

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.

The strategic asset allocation implemented is based upon an investment strategy review conducted by the Fund's Investment Advisor, Visio, 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.

The Administering Authority will continue to monitor the suitability of the investment policy in the light of the Fund's developing liabilities and finances.

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.

**FUTURE MONITORING**

The Administering Authority plans to review formally this Statement as part of the triennial valuation process unless circumstances arise which require earlier action.

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.

# Tayside Pension Fund

## Actuary's Statement as at 31 March 2024

**Barnett Waddingham LLP**

30 May 2023

The last full triennial valuation of the Tayside Pension Fund ("the Fund") was carried out as at 31 March 2023 as required by Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 27 March 2024.

## Asset value and funding level

At 31 March 2023, the smoothed value of assets used for valuation purposes and which included a 10% volatility reserve deduction was £4,340m which represented 110% of the liabilities of the Fund valued on an ongoing basis.

## Contribution rates

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The cost of the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due, or "primary rate";
- plus, an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The 2023 valuation certified an average primary rate of 22.5% p.a. of pensionable pay. Each employer body participating in the Fund has to pay a contribution rate consisting of the employer's individual primary rate and a secondary rate reflecting the employer's particular circumstances and funding position within the Fund.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

# Assumptions

The assumptions used to value the liabilities at 31 March 2023 are **summarized** below:

| Assumptions as at 31 March 2023 | |
|---|---|
| Discount rate | 4.3% p.a. |
| Salary increases | 3.7% p.a. |
| Pension increases | 2.7% p.a. |
| Post-retirement mortality (member) – base table | Male/Female<br>105% / 115% of the S3PA_H tables |
| Allowance for improvement in life expectancy | CMI 2022 Model with a long-term rate of improvement of 1.25% p.a., a smoothing parameter of 7.0, an initial addition to improvements of 0.0% p.a. and weighting parameters of 0%, 0% and 25% for 2020-2022 respectively. |
| Retirement age | For each tranche of benefit, the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit. |
| Allowance for cash commutation | Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension |

# Updated position

## Assets

Returns over the year to 31 March 2024 have been higher than expected. As at 31 March 2024, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

## Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2024, the real discount rate calculated using the same methodology as at 31 March 2023 but updated for changes in market conditions is lower than at the 2023 valuation. This has increased the liabilities.

The value of liabilities will have further increased since the 2023 triennial valuation due to interest accrued over the period as well as actual inflation being higher than previously anticipated. Accrued benefits increased by 6.7% in line with the 2024 pension increase order, which is higher than the pension increase assumption at the previous valuation, increasing the value of liabilities further.

## Overall position

On balance, we estimate that at 31 March 2024 there is sufficient volatility reserve to maintain the funding level at the previous valuation level of 110% using assumptions consistent with those adopted at the 2023 valuation.

Overall, the funding position is broadly comparable to the previous valuation and the surplus position would be sufficient to maintain contribution rates at current levels.

We will continue to monitor the funding level on a quarterly basis as requested by the administering authority.

**Graeme Muir FFA**
**Partner, Barnett Waddingham LLP**

## STATEMENT OF INVESTMENT BELIEFS

Tayside Pension Fund has developed a Statement of Investment Beliefs to ensure that investment strategies employed by the Fund remains consistent with its investment beliefs.

This Statement of Investment Beliefs has been designed to support the Fund in underpinning the investment decision-making process for the future, and also as a reference point for supporting why investment decisions are made. The Statement of Investment Beliefs should be viewed in conjunction with the Fund's Statement of Investment Principles, Funding Strategy Statement and Environmental, Social and Governance ("ESG") Policy.

The statement is reviewed annually to ensure that it remains both in-line with the documents noted above and with the Fund's overall objectives. These are set out in the Fund's Funding Strategy Statement and, are as noted below:

- To maximise investment income within reasonable risk parameters so as to ensure that sufficient resources are available to manage liabilities effectively, and that all liabilities are met as they fall due; and
- Build up the required assets in such a way that employer contributions remain stable in the short term and at reasonable cost to the Fund's Employers and to the taxpayers over the longer term.

**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 ensure this needs to determine an appropriate investment strategy to meet the level of return required. The Fund believes 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 appreciates 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 believes that clearly defined investment objectives are key in providing focus in implementing its 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 ongoing sustainable returns, and in light of this, the Fund may justifiably hold some investments over many years in the belief that longer term investments have historically proven to generate more wealth than short term investments. 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 as a result, the Sub-Committee is comfortable holding an allocation to these less liquid assets as part of a suitably diverse investment portfolio. Whilst the Fund monitors and manages short- and medium-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 believes 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 believes 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 acknowledges that in order to achieve the 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 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 believes 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 believes that equities will drive total Fund performance and is therefore comfortable holding a material allocation to equities to help drive asset and income growth to meet benefit payments.

**Active investment management can add value after fees and other costs:**

Tayside Pension Fund believes that, in certain asset classes, such as equities, carefully selected investment managers can add value, after fees and other costs, through active management. As a result of this belief, the majority of the Fund's assets are actively managed. The Fund acknowledges that consistent outperformance is difficult to achieve and therefore dedicates time and effort in selecting and monitoring the performance of its 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 believes 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 evaluates 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 believes that managers should invest responsibly, incorporating all environmental, social and governance (ESG) factors which could not only have material financial effect on the Fund but also damage its reputation. To ensure incorporation of ESG into investment decision making, the Fund requires 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 expects 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 its 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; and
- Sustainability and the Environment.

The Fund uses 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 are 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.

## STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles (SIP) is the Fund's main investment policy document. The SIP is reviewed annually (or more often if required) and updated to reflect any changes approved by the Pension Sub-Committee.

### 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; and
- 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 Miners Principles" (December 2009).

### 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.

### INVESTMENT OBJECTIVE 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.

### INVESTMENT STRUCTURE, STRATEGY & OBJECTIVES

The Fund's investment policy will be directed to achieving and maintaining a fully funded scheme and where practical, 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 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 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 must comply with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

## 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.

Investment objectives and targets have been set to ensure a prudent and balanced investment exposure, which helps control the level of investment risk. The performance of these managers is monitored on a quarterly basis.

## 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.

## 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 tracking error 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. This is subject to annual review, and the risk register is reviewed and updated on a quarterly basis.

## EXPECTED RETURN

Investment Managers will be held accountable for their performance through a regime of performance measurement against targets.

The Benchmark and performance targets 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.

## 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 investment 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 them.

## ADVISORS

| | |
|---|---|
| Investment Consultant | ISIO Services Ltd |
| Corporate Governance | Pensions Investment Research Consultants Ltd (PIRC) |
| Actuarial | Barnett Waddingham |

## PERFORMANCE MEASUREMENT

Quarterly and Annual performance figures are provided by Northern Trust and considered by the Sub-Committee.

## CUSTODIAN

Northern Trust is the sole custodian for the Fund's assets.

**AUDITORS**

External - Audit Scotland
Internal - PricewaterhouseCoopers (PWC)

**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.

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.

**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.

**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.

**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 Sub-Committee will review this Statement annually or sooner if there is a change in policy in any of the areas covered.

**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 Miners Principles" (December 2009).

**INVESTMENT ROLES AND RESPONSIBILITIES**

**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 this, it 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.

**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.
- Ensuring appropriate additional voluntary contributions arrangements are in place.
- Ensuring adequate audit arrangements are in place.
- Preparing maintaining and publishing 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.

The Committee is supported by council officers and external advisers.
The Committee may appoint a working group to develop specific initiatives.

**Tayside Pension Fund Pension Board is responsible for:**

- securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator in such other matters as the LGPS regulations may specify
- securing the effective and efficient governance and administration of Tayside Pension Fund

**The Executive Director of Corporate Services is responsible for:**

- governance of the Fund
- implementation of Committee decisions
- Sub-committee and Board training

**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.

**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

**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
- cash management
- performance measurement

**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.

**INVESTMENT STRATEGY**

The Fund's investment objective is to support the funding strategy by adopting a suitable investment strategy and structure, incorporating the appropriate balance of returns for the accepted level of risk. The current funding strategy requires the Fund to hold the following diversified portfolio and achieve the required returns. The 2020 valuation stipulated a required return of 6.3% p.a. from the current blend and weighting of asset classes in order to achieve the key investment objective of maintaining the ability to meet current and future pension liabilities through effective long-term investment, whilst acting prudently where possible to protect its funding level and maintaining stable and affordable employer contribution rates (currently 17%).

| **Tayside Main Fund - Target Asset Allocation** | | |
|---|---|---|
| **Asset Class** | **Allocation** | **Required Nominal Return p.a.** |
| Equities | 65% | 7.5% |
| Gilts | 13% | 1.9% |
| Bonds | | 2.6% |
| Property | 12% | 6.3% |
| Local and Alternative Opportunities | 10% | 5.05% overall, with individual returns appropriate to level of risk. |

Asset Allocation as at 31 March 2024 was as follows:

| Asset Class | Asset Distribution 31 March 2023 | | Asset Distribution 31 March 2024 | |
|---|---|---|---|---|
| | Fund Actual % | Target Allocation % | Fund Actual % | Target Allocation % |
| Equities | 73.4 | 65.0 | 72.8 | 65.0 |
| Bonds, Gilts | 15.9 | 13.0 | 13.1 | 13.0 |
| Property | 10.5 | 12.0 | 9.4 | 12.0 |
| Alternatives | 0.2 | 10.0 | 4.7 | 10.0 |
| | | | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

The Fund's overall investment strategy had the following set benchmarks which were effective since 1st April 2017:

| **EQUITIES** | **FIXED INCOME** | **PROPERTY** |
|---|---|---|
| 80% MSCI AW Index<br><br>20% FTSE All Share Index | 65% Libor + 5%<br><br>20% ML Sterling Non-Gilts Index<br><br>15% FTSE Index-Linked Over 5yr Index | 100% IPD All Balanced Property Funds Weighted Average Index |

These benchmarks have been revised, and the following benchmarks will be effective from 1st 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 | | | |

| | | | |
|---|---|---|---|
| 31.4%: MSCI ACWI ND | 35%: iBoxx Sterling non-gilt index + 0.5% | | |
| 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%: Sol active L&G ESG Global Markets Index | | | |

In order to ensure a prudent and balanced investment exposure to an acceptable level of investment risk, these benchmarks are further refined at portfolio level as follows:

| Manager | Asset Class | Weighting | Current Benchmark | Performance Target (3yr rolling) |
|---|---|---|---|---|
| Fidelity | Global Equities (active) | 21% | 100% MSCI AC World Index | + 1.5% pa (gross of fees) |
| Baillie Gifford Global Alpha | Global Equities (active) | 12% | 100% MSCI AC World Index | + 1.75 to 2% pa (net of fees) |
| Baillie Gifford UK | UK Equities (active) | 12% | 100% FTSE All Share Index | + 1.75 to 2% pa (net of fees) |
| LGIM | Global Equities (passive) | 25% | 100% FTSE AW Index | +/- 0.5% p.a. (for 2 years out of 3) |
| GSAM | Fixed Income (UK) | 9% | Yield to maturity of 3% | + 1.25% pa (gross of fees) |
| Fidelity | Fixed Income (UK) | 9% | 72% ML Sterling Non-Gilts Index<br>28% FTSE Index-Linked Over 5 Year Index | + 0.75% pa (gross of fees) |
| Schroders | Property (UK) | 12% | 100% IPD All Balanced Property Funds Weighted Average Index | + 0.75% pa |
| GSAM | Real Estate Credit | <1% | UK CPI + 9% | |
| Northern Trust | Securities Lending | Circa 70% | N/A | 0.026% pa |

**INVESTMENT PERFORMANCE**

**Market Commentary**

**Economic overview**

The last 12 months have been defined by global inflationary pressures and tightening monetary policy. Recessionary fears dominated investor sentiment as central banks continued to hike interest rates to seek to bring inflation back in line with their central targets. Investor optimism increased towards the end of year, as inflation appeared to stabilise, and the likelihood of interest rate cuts in early 2024 increased. This backdrop resulted in a strong end to the year for global markets.

Despite a challenging economic backdrop through most of the year, performance was largely positive across all markets, with risk markets remaining resilient and investors growing increasingly hopefully that central banks would be successful in engineering a 'soft landing' for the global economy.

Global markets advanced early in the year as China abandoned its 'Zero Covid Policy' and reopened its economy, while global energy costs continued to fall from highs seen in the previous year. Following the sharp fall of US markets in March, as the impact of tightening financial conditions on balance sheets drove the collapse of several second tier US Banks, including Silicon Valley Bank. Financial sector disruption in European markets followed closely behind, owing to the perceived instability of Credit Suisse. The markets loss of confidence in Credit Suisse ultimately resulted in the Swiss government brokering a deal for the bank to be acquired by rival UBS.

In October, increased geopolitical tensions in the Middle East dampened market sentiment, coupled with the increased uncertainty that interest rates had peaked. In the final two months of the year, however, global markets rallied, buoyed by the prospect that central banks may have concluded their interest rate rises and could begin cutting rates in 2024.

This famous quote attributed to the renowned economist and Nobel Prize winner Milton Friedman, underlines why governments are so keen to bring inflation back down to target as soon as possible. However, the journey to get there promises to be very bumpy, as

In January, there was a surprising uptick in inflation since then there has been much more welcome news from the Office for National Statistics (ONS) confirming that the CPI measure of inflation was at 3.4% in February, a significant drop from the 4% recorded in January. The decline has predominantly been driven by lower energy, food and core goods price inflation. UK CPI inflation is now predicted to fall temporarily to the 2% target in June this year before rising again slightly towards the end of the year.

**Global Equities Summary**

Developed equity markets delivered positive returns over the 12-month period, and positive performance was largely driven by a relatively small number of very large US technology stocks. The US was the strongest performing region over the year, outperforming the global average as it benefitted from the rally in technology stocks driven by investor excitement around the potential of artificial intelligence (AI). The UK also posted healthy gains for the year, with names within industrials and consumer discretionary driving returns.

Equities rallied in the last quarter to March 2024 as strong economic data and expectations for interest rate cuts, fuelled by decelerating inflation in developed markets, underpinned hopes for a soft landing in the global economy. Sentiment received further support as corporate earnings in developed markets exceeded expectations. However, stickier than expected inflation led investors to lower the expected size of interest rate cuts this year. Against this global backdrop, US, Japan and Europe ex-UK equities gained strongly. Emerging markets also ended higher but lagged developed markets amid concerns around China's economic recovery. All sectors ended in positive territory. Information technology and communication services advanced as optimism around artificial intelligence themes buoyed sentiment. Energy stocks benefited from the higher oil prices amid geopolitical concerns in the Middle East and supply pressures.

**Global Fixed Income Summary**

Fixed income markets delivered positive returns over the year, benefitting from strong returns at the start of the year and towards the end, which helped offset losses experienced through the middle of the year. Performance was heavily influenced by changing investor expectations on the future path of interest rates, and the timing of potential cuts to interest rates. The expectations that monetary tightening had ended, and that the prospect of rate cuts moved into 2024 boosted investor confidence and saw fixed income markets post strong positive returns over the final months of the year.

After concerns over the stability of the global financial sector earlier in the year, credit spreads trended tighter over 2023, with higher yielding, lower quality credit performing comparatively better due to lower correlation with government bond yields and lower sensitivity to interest rates. There was a significant inter-period volatility in the year as investor expectations strengthened towards the idea of a “higher for longer” interest rate environment, driving gilt yields higher, however towards the end of the year, we saw a reversal of this trend, with markets pricing in expectations that central banks would begin to cut rates in early 2024.

**UK Property Summary**

The UK property market continued to struggle over 2023, following on from a difficult second half of 2022. The effects of higher interest rates, coupled with reduced loan availability and dampened economic growth were increasingly felt across the property market over the period.

The UK economy returned to growth in 2024 with January and February data showing 0.3% and 0.1% monthly expansion respectively. Inflation moderated in February with annual CPI growth declining to 3.4% in February from 4.0% in December and January. Whilst the heightened cost of living, and notably mortgage and rental costs, continue to bite, the housing market has shown signs of stabilisation, with a robust labour market supporting private consumption. At the same time, the service and manufacturing PMIs are back in expansionary territory. This is reflected in renewed optimism over the economic outlook, with the March Consensus forecast suggesting a return to growth in the second half of 2024. Notwithstanding this more optimistic outlook, downside risks remain, not least from the volatile geopolitical situation.

**UK Economic Outlook**

After dominating the agenda in recent years, there is an expectation from some economists for inflation to return to its 2% target by the second half of 2024, with disruptions in the Red Sea and relatively strong wage growth adding some upside risk to their forecasts. Weakening inflationary pressure should put the Bank of England in a position to begin cutting interest rates from the middle of the year.

Falling interest rates could spur partial recovery in liquidity conditions, with accumulated ‘dry powder’ aiding a bounce-back in private equity deals. However, the deterioration in access to finance pre-dates the current hiking cycle and rates are expected to remain above earlier lows.

The fall in house prices may have already bottomed out, but expectations of falls in interest rates could depress activity in the short term as borrowers wait for better deals. The labour market is softening, with employers hesitant to commit to new hires. However, a larger proportion of the population outside the labour force, could leave the supply of labour relatively low. Economists believe that nominal pay growth is set to moderate further (notwithstanding the 10% increase in the National Living Wage in April 2024), but it will remain well above inflation, allowing households to continue to recover their purchasing power, while unemployment is also expected to rise only marginally.

A service-led recovery has returned the economy back to growth, which is expected to average 0.3% this year, with long-term challenges kerbing real growth to around 1%. We expect improving incomes to bolster consumer spending, while investment should also benefit from easing credit conditions.

**Global Equities - Market Outlook**

Whilst global equities performed strongly over 2023, this did not result in a ‘typical bull market’, with a sizeable number of stocks delivering negative returns, and volatility spiking at various points throughout the year. The strong headline returns masked significant divergence in performance, with the US and Japanese markets performing particularly strongly, but Emerging Markets and the UK both lagged. Emerging Markets continue to be hampered by economic growth and regulatory concerns in China, while the UK’s significant exposure to ‘old world’ utility and energy firms continue to weigh on performance.

Looking forward, at an aggregate level, markets appear increasingly 'priced for perfection'. Valuation metrics such as the Price/Earnings ratio and the CAPE remain elevated relative to history, particularly within the US – a market which is also almost as concentrated as it has ever been. Such metrics appear even more stretched when compared to the yield now available within fixed income markets. With market participants now anticipating the much sought after 'soft landing', the S&P 500 is expected to generate 12% earnings growth in 2024; this is above the 10-year trailing average rate of 8%.

There are reasons for optimism: corporate earnings growth has proven resilient to-date and central bank monetary tightening has failed to significantly slow economic growth; however, there also remain significant risks as we go into 2024. Most notably, the year ahead is likely to bring political volatility, as around half of the world's population are set to vote in elections; meanwhile, a central bank policy misstep also remains possible as global inflation remains above target. Investors remain cautious around the overall short to medium term risk-return reward outlook for global equities. However, it is important to note that there may be pockets of value within the market, and there remains upside available for companies which have struggled over recent years; a broadening of equity market returns could be a positive sign for equity investors over the next year or two.

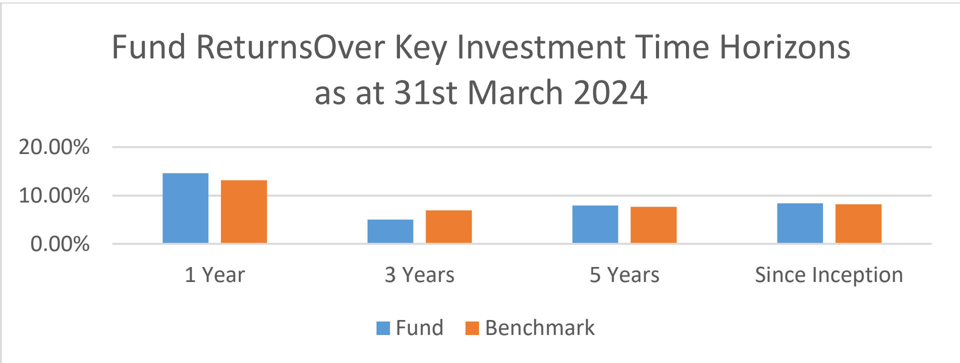
**Global Fixed Income - Market Outlook**

The UK bond market has shifted its focus from being higher for longer to pricing in interest rate cuts in 2024. The Bank of England has indicated that it could reduce interest rates over the year. However, the central bank will need more evidence of inflation returning to its target level before it lowers interest rates. There is still cautions on the outlook for the credit market, and valuations are expensive given credit spreads tightened on the back of positive macro backdrop. Meanwhile, outright yield levels remain attractive. In this environment, high quality corporate bonds provide a credible income seeking option for investors.

**FUND PERFORMANCE**

**Performance Commentary**

In the year to 31 March 2024, the Fund achieved positive return of 14.59%, whilst the benchmark return was 13.14%. The Fund value increased from £4.825bn to £5.494bn at end of March 2024. The following graph details the performance of the fund across all periods:




During the year, the performance of the equity managers was as follows:

**Baillie Gifford Global Equities** – was behind benchmark with a positive return of 18.31% versus 21.18% for the benchmark.

This is primarily a bottom-up, active investment strategy, which seeks to invest in companies that it believes enjoy sustainable competitive advantages in their industries and which will grow earnings faster than the market average, based on their belief that share prices ultimately follow earnings. Their investment aim is to generate above average long-term performance by picking the best growth stocks available globally.

The portfolio had a mixed year, outperforming in two of the four quarters. Whilst the US stock selection accounted a significant proportion of the gains in both technology & consumer discretionary, this region also suffered negative allocation and stock selection effect over the year. Other detractors to performance included Emerging markets and Japan. Whilst it has been a challenging time for growth style investors, recent performance has been discussed in depth, and the portfolio manager has provided reassurance that the companies invested in are resilient in the face of market disorientation.

**Baillie Gifford UK Equities** - was behind benchmark with a return of 6.07% versus 8.43% for the benchmark.

This portfolio typically favours companies that have strong balance sheets and lower than average debt, with the belief that such companies recover from the current crisis relatively strong and be well-placed to take advantage of the opportunities that always await after a severe market dislocation. Their very long-term investment philosophy focusses on long-term business fundamentals.

This was an extremely challenging year for this portfolio, which is evidenced by the underperformance in three of the four quarters. In the year, strong performance came from consumer staples and construction companies, whilst the financial sector holdings were a key detractor to performance. The investment manager's strong conviction to their current holdings remains firm throughout the volatile period.

**Baillie Gifford Positive Change** - was behind benchmark with a return of 7.48% versus 21.18% for the benchmark.

This is a relatively new allocation for Tayside Pension Fund. The portfolio has a dual objective to deliver attractive long-term returns whilst delivering a positive change by contributing towards a more sustainable and inclusive world. The portfolio is constructed of concentrated 25-50 holdings of exceptional companies focussing on the following features as well as seeking active long-term growth:

- Social Inclusion and Education
- Environment and Resource Needs
- Healthcare and Quality of Life
- Base of the Pyramid

As with the previous year, the portfolio's underweight position in energy and the specific technology stocks in the index (which have dominated the index performance) has been detrimental in the short term that the Fund has been invested.

**Fidelity Global Equity** – was slightly above benchmark with a return of 20.62% versus 20.60% for the benchmark.

This portfolio has a value style biased approach designed to deliver strong returns over the long term, with stock selection driven by potential for absolute share price appreciation. It has a stylistic balance across three differing investment methodologies to aim to deliver returns even in a low growth environment.

The portfolio had a mixed year of performance, but although it suffered underperformance in two of the four quarters, it managed to achieve overall outperformance versus the index. Contributing to the outperformance in the year were the sector allocations in consumer staples, real estate and materials, with the US, emerging markets and Japan being the regions which accounted for majority of gains. The underweight positions to the technology stocks which dominated the index over the year were both contributors and detractors from performance. Their value investment bias continued to protect the portfolio to some extent over the period in comparison to growth style investment portfolios.

**Legal & General Investment Management Passive Equity** – was above benchmark with a return of 21.03% versus 19.55% for the benchmark.

Although a passive mandate, the 25% weighting to the Future World Global Index Fund delivered outperformance due to the increased weighting this fund has to the index dominating technology stocks.

During the year, the performance of the fixed income managers was as follows:

**Fidelity Bond** – The portfolio was ahead of benchmark with a return of 5.06% versus 2.49% for the benchmark.

The portfolio continues to take a relatively defensive position, outperforming benchmark in all reported time periods.

During the year, the performance of the property and alternative asset managers was as follows:

**Schroders Property -** were ahead of benchmark with a return of 1.34% versus -0.70% for the benchmark.

The portfolio retains an overweight relative to benchmark in industrials, regional offices and alternatives (including student accommodation, social housing and healthcare) and underweight to the traditional retail sector and central London offices. The selection of funds with a high industrial concentration and low retail exposure has again benefited the portfolio over the year as the strongest drivers of performance. There have been other timely disinvestments over the year which has further strengthened their strong defensive position. The portfolio performance remains ahead of benchmark in all time horizons.

**GSAM – Broad Street Real Estate Credit Partners III** – was behind benchmark with a return of 9.8% versus 12.13% for the benchmark. This fund is in the latter stages awaiting closing distributions.

**Portfolio Transitions**

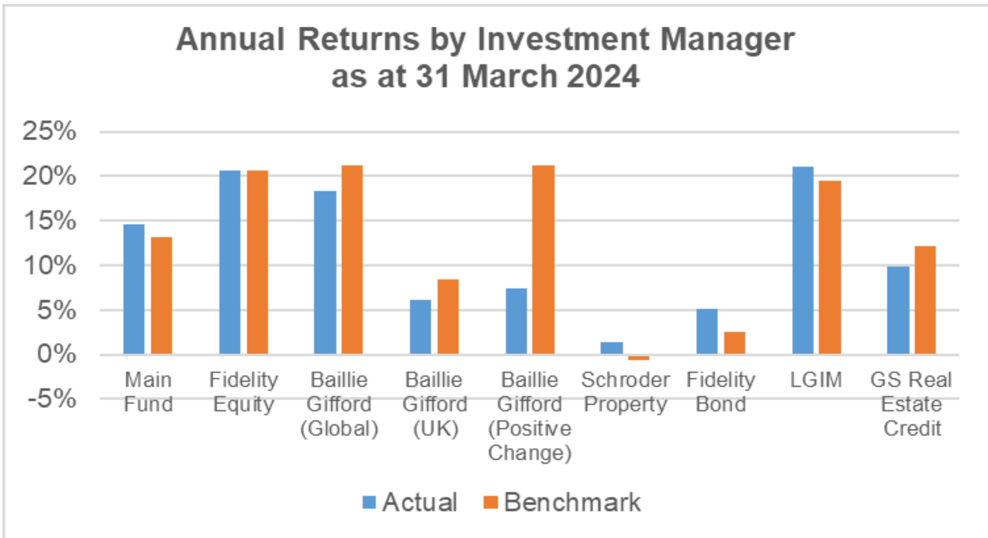
In keeping with the Fund's Investment strategy, the Fund undertook a number of investment manager procurement exercises, and made the following appointments below, which were funded in February 2024 following the termination of the GSAM Bond mandate and distributions from the Fidelity Equity mandate in March.

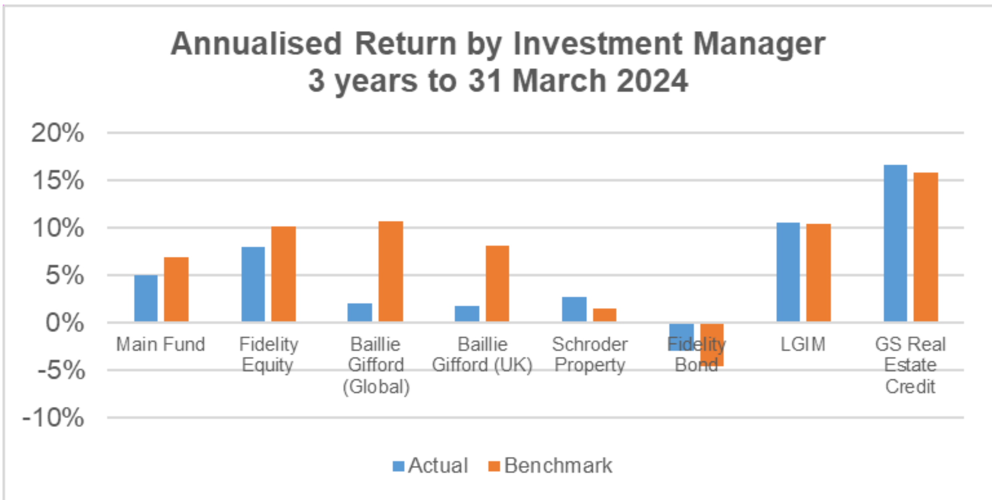
Buy & Maintain Bond Fund – LGIM
Multi-Asset Credit – Apollo
Direct Market Portfolio – Partners Group

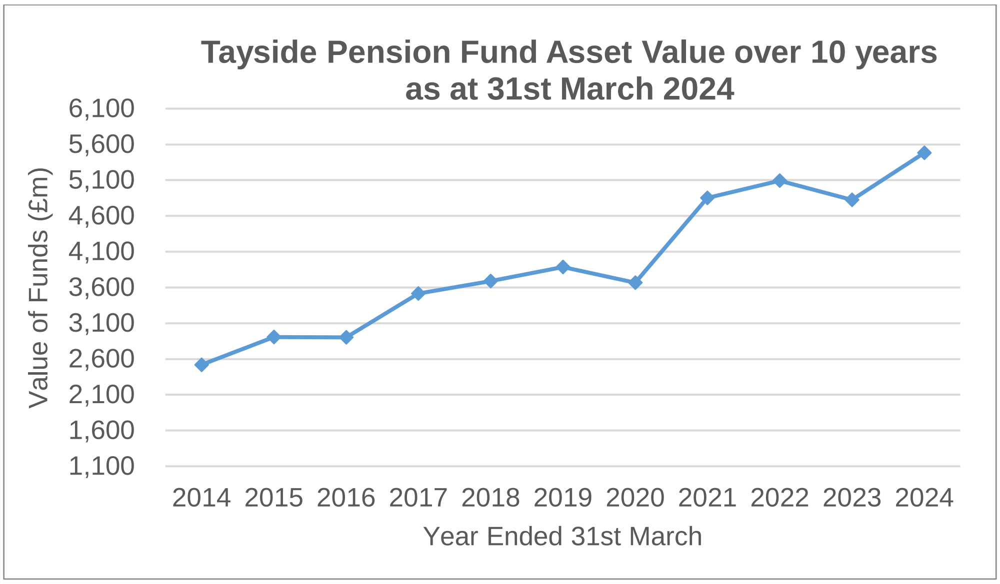
These transitions were planned for the end of the financial year and the holdings are detailed in the financial statements.

**Performance Measurement**

The following graphs provide detail of the Fund's performance over time in relation to the component investment portfolios, and the impact of these returns on the Fund's value over a 10-year period:




Tayside Pension Fund Asset Value over 10 years as at 31st March 2024
Value of Funds (£m)
6,100
5,600
5,100
4,600
4,100
3,600
3,100
2,600
2,100
1,600
1,100
2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024
Year Ended 31st March

## ENVIRONMENTAL, CORPORATE AND SOCIAL GOVERNANCE

### RESPONSIBLE INVESTING

Corporate Governance and Corporate Social Responsibility have developed significantly in recent years in response to both legislative and stakeholder demands. Tayside Pension Fund remains committed to supporting good environmental, social and corporate governance within the companies in which it invests.

The Fund has a fiduciary duty to incorporate Environmental, Social and Corporate Governance (ESG) factors as an active and embedded principle of risk and return assessment in managing and determining its investment portfolio and ensuring that any managers appointed by the Funds are doing likewise. The United Nations Principles for Responsible Investing Initiative is intrinsic within the global investment community, and the Fund requires all assets managers be signatories to the principles. These principles widen socially responsible investing to cover ESG, setting out guidance on how this can be met.

In-keeping with the Fund's Environmental, Social & Corporate Governance Policy in seeking to enhance effectiveness in implementing the United Nations Principles of Responsible Investment (UNPRI) of responsible stewardship, the fund has made a commitment to join with other institutional investors in Climate Action 100+ and also join with other Scottish LGPS in collaboratively seeking improved engagement. The fund are members of The Institutional Investors Group on Climate Change.

The Fund also uses an independent voting advisory service to provide global voting recommendations and disclosures on a quarterly basis for companies within the main financial indices in order to exercise responsible stewardship across their entire global portfolio. The Fund's investment managers use this service to vote on their behalf to ensure voting is in accordance with these recommendations.

The Fund is required to take a responsible approach to 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.

### 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.

**CLIMATE FOCUS**

Tayside Pension Fund recognise that Climate Change is a systemic risk and thus a material long-term financial risk, and thus support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks. Tayside Pension Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners, and sets out below its approach to managing climate risk within the TCFD's four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets.


**Governance**

- Recommended Disclosure A - Describe the board's oversight of climate-related risks and opportunities.

Whilst the Fund's governance structure is contained in the Annual Governance Statement, in short, Tayside Pension Fund Sub-Committee has responsibility for agreeing investment objectives, strategy and structure and for developing the Environmental, Social & Corporate Governance strategy, and it is the role of the Pension Board to ensure compliance with policy. Climate change is specifically addressed in the quarterly risk register which is reported to both the Sub-Committee and Board, and in addition to this, they also receive bi-annual reports on the Fund's ESG activities and engagement which also details the carbon foot-printing of the Fund's active equity portfolios.

- Recommended Disclosure B - Describe management's role in assessing and managing climate related risks and opportunities.

The Executive Director of Corporate Services is the responsible officer who ensures that Sub-Committee decisions are implemented by the officers and service providers of the Fund.

It is the role of the Fund's investment managers to incorporate analysis of ESG issues into their investment analysis. They are expected to engage on these issues with the companies in which they invest, and ensure that their decisions are in keeping with the Fund's ESG Policy. It is a requirement that all of the Fund's investment managers are PRI (Principle for Responsible Investment) signatories, and that they seek to be signatories of the new UK Stewardship Code.

Tayside Pension Fund also work in collaboration with other investors including the Institutional Investor Group on Climate Change (IIGCC), Climate Action 100+. This collective approach ensures that Tayside Pension Fund contribute to wider initiatives.

**Strategy**

- Recommended Disclosure A - Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

**Risks** - As long-term investors, the macro-economic and demographic impacts of Climate Change are a risk. Whilst Tayside Pension Fund has a globally diversified investment strategy, which incorporates a number of asset classes, the Fund's greatest weighting is to equities, therefore the prime concern is that active equity portfolio managers and the management of the companies in which they invest have fully assessed climate-related risks, and the potential impact on asset valuations, in particular from:

- obsolescence, impairment or stranding of assets
- changing cost structures including increased emissions pricing
- changing consumer demand patterns

With respect to short- and medium-term risk, the Fund ensures that responsible investment considerations and Climate Change continue to be embedded throughout the investment and management processes of all the external investment managers and that the managers continue to manage climate related risks and opportunities.

**Opportunities** – In 2021, the Fund amended its ESG Policy to ensure that emission reduction was formalised for companies invested in, in that there is a distinct timebound reduction requirements for scope 1& 2 emissions by end 2022, and net zero commitments by 2024.

Furthermore, the Fund have worked with investment advisors on plans of existing portfolios to more environmentally conscious alternatives where possible, and where market conditions allow. 2022 saw the initial allocations made.

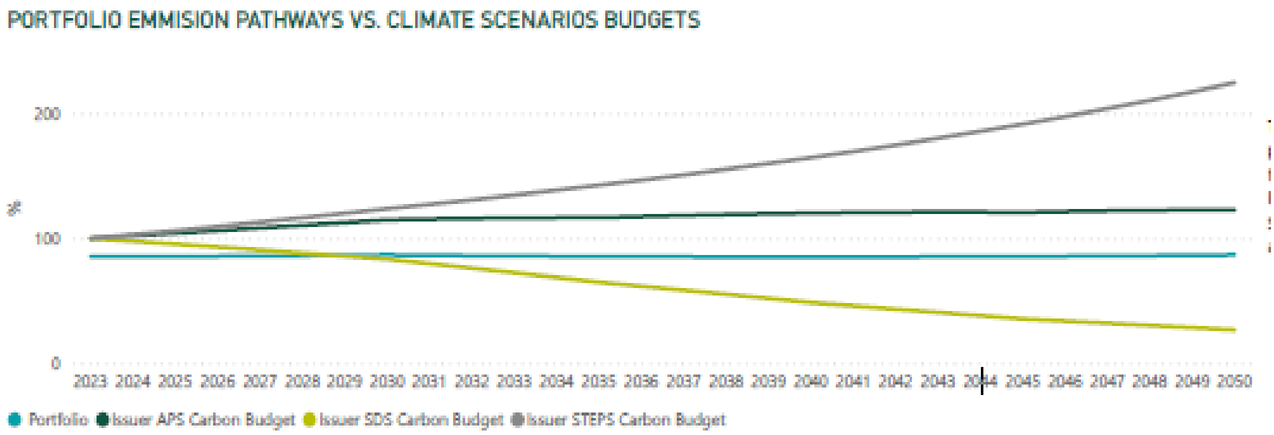
- Recommended Disclosure B - Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning.

The primary objective of the Fund is to pay pensions, and the principal strategy document is the Funding Strategy Statement. It describes the funding objective as: to ensure that sufficient funds are available to pay all members' pensions now and in the future.
The basis for strategy and financial planning is the triennial actuarial valuation of the Fund. As part of the 2023 valuation and modelling process, the Fund's actuary will complete an analysis of the impact of climate risk on the Fund's liabilities, assets and operating costs.

This scenario modelling will be used in future to assess an appropriate allowance for climate risk within funding assumption prudence as well as future investment strategy considerations, including asset allocation decisions.

- Recommended Disclosure C - Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The scenario alignment analysis Tayside Pension Fund use is provided by the Fund's custodians, and compares current and future portfolio greenhouse gas emissions with the carbon budgets for the IEA Sustainable Development Scenario (SDS), Stated Policies Scenario (STEPS) and the Current Policies Scenario (CPS). Performance is shown as the percentage of assigned budget used by the portfolio. See below for information available as at 31 December 2023



**Risk**

- Recommended disclosure A & B - Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.
- Recommended disclosure C - Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Tayside Pension Fund's overall approach to risk management is described in its Risk Policy & Strategy Statement. The statement is also summarised in the Governance section of the Fund's annual report. Climate Change is addressed at risk 22 which is summarised below:

Risk 22 - Failure to implement ESG Policy (specifically in relation to Climate Change and incoming requirements of TCFD).

Cause of risk:

- Inadequate policy & practices
- Failing to understand incoming requirements
- Failing to plan and implement changes required

Impact:

- Poor decision making
- Non-compliant actions being taken
- Statutory breach
- Reputational risk

Consequences:

- Failing to meet strategic objectives
- Regulatory action
- Loss of stakeholder confidence

Whilst the risks cannot be removed, they are partially mitigated by the following controls:

- Regularly reviewed policies (annually), processes and reporting (biannually)
- Project plans to meet changing requirements
- Specialist advice as required

**Exercise of Ownership Responsibilities -** Activity relating to Climate Change risk is carried out by the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest. As mentioned previously, a timebound requirement for ensuring companies had emission reduction targets and net zero commitments was put in place in 2021.

The Fund also collaborate with other investors including the Institutional Investor Group on Climate Change (IIGCC) and Climate Action 100+.

**Formal Advice & development of specific strategies -** A key element in the development of Tayside Pension Fund's Investment strategy has been the consideration of ESG factors, and more specifically, climate change. The Fund has worked with its investment advisors to develop a transition strategy to more environmentally conscious funds. During 2022, Tayside Pension Fund made allocation of 25% of the passive equity mandate to the Future World Index Fund, which avoids investment in companies that fail a number of wide ranging ESG scoring. There was also a small initial allocation to a positive impact fund which has dual investment objectives to ensure that whilst delivering returns, it is also delivering positive outcomes.

**Metrics & Targets**

- Recommended Disclosure A - Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.

Tayside Pension Fund have engaged with their custodians to provide carbon footprinting data and analysis. For all listed equities and bond portfolios, the carbon footprinting has enabled the identification of the top 10 assets responsible for contributing to the carbon footprint of that portfolio as shown below as at 31 December 2023. Portfolio managers also provide this information on a quarterly basis. The Fund is committed to repeating this footprinting on a bi-annual basis and investigating the inclusion of other asset classes in addition to listed equities and bonds.

## TOP 10 POSITIONS BY WEIGHT

| Issuer | % Portfolio | Carbon Risk Rating |
|---|---|---|
| Microsoft Corporation | 3.8% | 69.0 |
| Alphabet Inc. | 2.1% | 88.0 |
| Amazon.com, Inc. | 2.1% | 65.0 |
| Apple Inc. | 1.6% | 70.0 |
| Mastercard Incorporated | 1.1% | 70.0 |
| UnitedHealth Group Incorporated | 0.9% | 57.0 |
| AstraZeneca Plc | 0.9% | 90.0 |
| JPMorgan Chase & Co. | 0.9% | 63.0 |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 0.9% | 74.0 |
| Meta Platforms, Inc. | 0.9% | 77.0 |

## TOP 10 CARBON RISK RATING

| Issuer | % Portfolio | Carbon Risk Rating |
|---|---|---|
| ENPHASE ENERGY, INC. | 0.0% | 100.0 |
| First Solar, Inc. | 0.0% | 100.0 |
| Kingspan Group Plc | 0.0% | 100.0 |
| Vestas Wind Systems A/S | 0.0% | 100.0 |
| Dell International LLC | 0.0% | 99.0 |
| Dell Technologies Inc. | 0.2% | 99.0 |
| Adani Green Energy Limited | 0.0% | 96.0 |
| Elevance Health, Inc. | 0.6% | 92.0 |
| Moodys Corporation | 0.6% | 92.0 |
| Hewlett Packard Enterprise Company | 0.0% | 91.0 |

## TOP 10 CARBON INTENSITY (SCOPE 1+2)

| Issuer | % Portfolio | Carbon Intensity |
|---|---|---|
| ACWA Power Co. | 0.0% | 48,080.4 |
| Ultratech Cement Ltd. | 0.0% | 8,971.6 |
| Taiwan Cement Corp. | 0.0% | 8,350.8 |
| Vistra Corp. | 0.0% | 7,492.1 |
| Vistra Operations Co. LLC | 0.0% | 7,492.1 |
| Grasim Industries Limited | 0.0% | 5,365.0 |
| Evergy, Inc. | 0.0% | 4,751.4 |
| PPL Corporation | 0.0% | 4,577.1 |
| CLP Holdings Limited | 0.0% | 4,436.9 |
| Ameren Corporation | 0.0% | 4,426.8 |

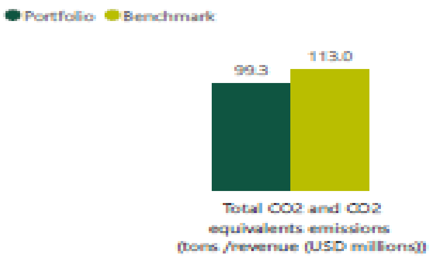
## BOTTOM 10 CARBON INTENSITY (SCOPE 1+2)

| Issuer | % Portfolio | Carbon Intensity |
|---|---|---|
| NASDAQ, INC. | 0.0% | 0.0 |
| Match Group, Inc. | 0.0% | 0.0 |
| Franco-Nevada Corporation | 0.0% | 0.0 |
| Wheaton Precious Metals Corp. | 0.0% | 0.0 |
| St. James's Place Plc | 0.2% | 0.0 |
| DNB Bank ASA | 0.1% | 0.0 |
| AerCap Holdings NV | 0.0% | 0.0 |
| AerCap Ireland Capital DAC | 0.0% | 0.0 |
| Swiss Re AG | 0.0% | 0.1 |
| Spotify Technology SA | 0.1% | 0.1 |

- Recommended Disclosure B - Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Tayside Pension Fund have considered Scopes 1 and 2 in its analysis. Scope 3 data was not considered to be of a sufficiently robust standard to incorporate. Summary findings of this analysis by mandate as at 31 December 2023 are as follows:

### WEIGHTED AVERAGE CARBON INTENSITY



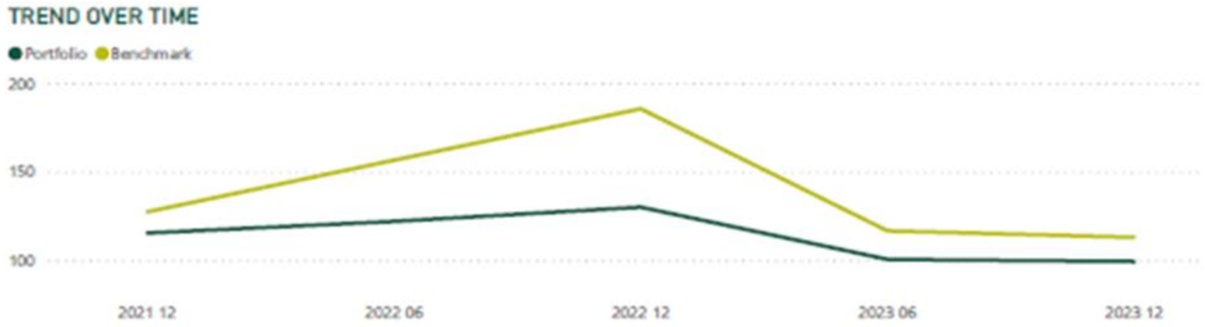

### MANAGER COMPARISON

| Portfolio | WACI |
|---|---|
| Baillie Gifford Global Eq | 153.3 |
| Baillie Gifford Positive | 28.7 |
| Baillie Gifford UK Eq | 61.6 |
| Fidelity Bond Fund | 38.5 |
| Fidelity Equity Fund | 59.2 |
| Goldman Sachs Global Bond Fund | 205.4 |
| LGIM Passive Equity | 109.5 |

- Recommended Disclosure C - Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.

Whilst Tayside Pension Fund has no explicit Climate Strategy, it is committed to ensuring that their investment strategy is consistent with achieving the goal of global net-zero emissions by 2050 if conditions allow, and are working to achieve this trajectory.

Tayside Pension Fund has used historic portfolio information to establish the December 2021 position as a baseline. Results for Tayside Pension Fund's listed equity and bond portfolios are summarised in a simplified format in the chart below:



**SCHEME MEMBERSHIP AND BENEFITS**

The Local Government Pension Scheme is a defined Benefit Scheme. From 1st April 2015, benefits are accrued at 1/49th of pensionable pay on a career average basis. Prior to that date benefits were accrued on a final salary basis. These benefits are fully protected on the basis under which they were accrued, and all benefits are paid in accordance with the Local Government Pension Scheme Regulations. The following table gives a summary of scheme benefits:

| Membership up to 31st March 2009 | | Membership from 1st April 2009 to 31st March 2015 | | Membership from 1st April 2015 |
|---|---|---|---|---|
| Annual Pension = (Service years / days x Final Pay) / 80 | | Annual Pension = (Service years / days x Final Pay) / 60 | | Annual Pension = Annual Pensionable Pay / 49 |
| | | | | |
| Automatic tax-free cash lump sum = 3 x Annual Pension | | No automatic tax-free cash lump sum, but pension conversion available | | No automatic tax-free cash lump sum, but pension conversion available |
| | | | | |
| • Annual revaluation and pensions increase in line with CPI inflation<br>• Partners' and dependents' pensions<br>• Ill health protection<br>• Death in service protection | | | | |

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 scheme is governed by statutory regulations.

**Scheme Membership**

The following table summarises the scheme membership.

| Status | Total at 31/3/2023 | Total at 31/3/2024 |
|---|---|---|
| Active | 18,912 | 18,765 |
| Deferred / Undecided/ Frozen | 18,662 | 19,495 |
| Pensioners (Inc. dependents) | 18,008 | 18,645 |
| Total | 55,582 | 56,905 |

**PENSION ADMINISTRATION STRATEGY**

Tayside Pension Fund is committed to providing a 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 these parties meeting high standards of accuracy and the timeliness of information supplied.

This strategy details 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. The Pension Administration Strategy underwent employer consultation before being approved by the Pension Sub-Committee on 20th March 2023 and subsequently published on our website. The following provides an abridged version of the policy, with the full document available for view on our website:
https://www.taysidepensionfund.org/resources/pensions-administration-strategy-2023-24/

**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 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.

**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.

**Roles and responsibilities**

Employer's duties and responsibilities, and those of the Fund are listed in the full document.

**Service standards and Performance Measures**

Service standards in relation to the Employer and the Fund along with details of performance measures are listed in the full document.

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.

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.

**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.

**Communication**

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

**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.

**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.

**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.

**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)<br>£200 for failing to meet Statutory deadline. (30th June)<br><br>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.

**COMMUNICATIONS POLICY**

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.

The following Communications Policy was approved by the Pension Sub-Committee on 20th March 2023 and subsequently published to the Fund website. The document can be also be viewed at: https://www.taysidepensionfund.org/resources/communication-policy-march-2023/

**Introduction**

Tayside Pension Fund is administered by Dundee City Council, with pension administration and investment services for 41 local government employers and associated bodies and their employees within the Tayside Area.

**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.

**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

**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.

**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<br>Floor 4, Dundee House<br>50 North Lindsay Street<br>DUNDEE, DD1 1NZ

Personal appointments - By prior arrangement at Dundee House.

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

**Active Members**

We have over 18,000 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.lgps2015.org;

**Deferred Members**

There are over 19,000 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 18,000 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. Pensioners will also have access to the online self-service portal where they will be able to view and print copies of payslips.

**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 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).

**SCHEME DISCRETIONS POLICY**

The Local Government Pension Scheme (LGPS) in Scotland was amended from 1 April 2015 so that benefits accruing for service after 31 March 2015 accrue on a Career Average Revalued Earnings (CARE) basis, rather than on a final salary basis. As a result of these changes, all LGPS schemes in Scotland were required to formulate, publish and keep under review a Statement of Policy on certain discretions which they have the power to exercise in relation to members of the CARE Scheme.

To provide full clarity of scheme discretions available across all relevant pension regulations, a Discretions Policy was developed and approved by the Pensions Sub-Committee on 8th March 2021. This policy will be reviewed following regulatory or policy changes approved. The document can be viewed at https://www.taysidepensionfund.org/tayside-pension-fund/about-us/forms-and-publications/

**ADMINISTRATION EVENTS & PERFORMANCE**

2023/24 has continued to see increases in case volumes. Through the year, resourcing has been challenging due to staff absence and continuous recruitment exercises being undertaken along with the ongoing training within the team. Pensions Dashboard preparation has been progressing in good speed towards the upcoming staging date; and the implementation of age discrimination legislation (McCloud) has been the key focus for the more experienced staff who are being utilised to deal with the complexity of cases affected.

The Member Self-Service Portal (MSS) usage continues to increase, now with over 50% active and deferred members as registered users. The key functions being used by members are to amend their personal details and also undertake simple benefit calculations and projections. The system is also a key tool for the administration team, enabling the electronic issue of Annual Benefit Statements and other documents to those members who have registered. Correspondence in paper format remains available for members who elect this option.

The employer portal (I-connect) usage has also progressed, with most employers utilising the system through the year, and support has been provided to employers to enable full operational usage by May 2024.

**Performance**

The following provides summary of task volumes over the year to 31st March 2024 in comparison to the previous year:

| Pensions Brought into Payment | Apr-Jun | Jul-Sept | Oct-Dec | Jan-Mar | Total | Last Year | % Change |
|---|---|---|---|---|---|---|---|
| Redundancy/Efficiency | 5 | 11 | 11 | 14 | 41 | 49 | -16% |
| Ill Health | 17 | 19 | 16 | 18 | 70 | 76 | -8% |
| Deferred | 84 | 109 | 104 | 98 | 395 | 344 | 15% |
| Flexi | 14 | 13 | 18 | 16 | 61 | 28 | 118% |
| Voluntary | 108 | 131 | 100 | 75 | 414 | 371 | 12% |
| Voluntary (Age 65+) | 37 | 55 | 38 | 32 | 162 | 132 | 23% |
| Grand Total | 265 | 338 | 287 | 253 | 1143 | 1000 | 14% |

2023/2024 saw an overall increase of 14% across all methods of retirement, with voluntary retirement consistently over recent years as the highest method of retiral. Flexible retirement has also seen an increase by 118% for the year.

| Estimates Received | Apr-Jun | Jul-Sept | Oct-Dec | Jan-Mar | Total | Last Year | % Change |
|---|---|---|---|---|---|---|---|
| General | 109 | 164 | 133 | 184 | 590 | 684 | -14% |
| VER | 79 | 0 | 0 | 2056 | 2135 | 3776 | -43% |
| Grand Total | 188 | 164 | 133 | 2240 | 2725 | 4460 | -39% |

During 2023/2024 there was a marked decline in estimate requests received. This is mainly due to:

- employers now operating the function on I-connect to undertake their own initial estimate calculation for strategic planning and requesting bulk estimates for redundancy/efficiency.
- members using the MSS portal to produce their own estimates.

These volumes can however fluctuate depending on the needs of the members, as the software does not accommodate more complex cases (e.g. members with AVCs or a scheme debit), which will always require pensions specialists to undertake calculations.

| Other Pension Events | Apr-Jun | Jul-Sept | Oct-Dec | Jan-Mar | Total | Last Year | % Change |
|---|---|---|---|---|---|---|---|
| Deaths | 164 | 166 | 184 | 225 | 739 | 755 | -2% |
| Survivor Pensions | 77 | 48 | 53 | 78 | 256 | 248 | -3% |
| Grand Total | 241 | 214 | 237 | 303 | 995 | 1003 | |

2023/24 saw caseloads remain at a high level in line with previous years, although a marginal decrease in both areas is noted.

| Tasks Measured | Case Volume 2022/23 | Average Days to Process | Case Volume 2023/24 | Average Days to Process |
|---|---|---|---|---|
| Clerical Tasks | 3010 | 87.29 | 5291 | 138.53 |
| Death Grant | 126 | 65.29 | 130 | 69.57 |
| Divorce | 50 | 47.80 | 57 | 65.11 |
| Estimates | 4460 | 13.01 | 2725 | 17.72 |
| Misc Payroll | 1476 | 25.37 | 3035 | 36.88 |
| Retirements | 1000 | 18.23 | 1143 | 18.46 |

During 2023/24 there was a marked increase in clerical tasks. Additionally, an additional checking process has also been required for GDPR purposes for address changes made by employers via Iconnect. This, coupled with the increase in task volumes has inevitably resulted in a rise in processing times.

Across all other areas apart from estimates where the case volumes have dropped, average processing times remain in line with the increase in task volumes. As noted previously, the estimates undertaken by the team are more complex in nature and require additional time and resource.

**2023/24 Events**

- **Payment of contributions by scheme employers**

The Pensions Act 1995 requires employers to make payment of the employee and employer contributions by the 22nd of the month following deduction from the employee's wage/salary and as such this is recorded and monitored monthly.

The Internal control measure of the 19$^{th}$ of month following deduction is also maintained, and during the period there were 7 instances of payment after the 19$^{th}$ recorded. These employers were contacted in relation to the late payments, and with the exception of 1 employer this issue was quickly addressed. The employer with outstanding balance was referred to management, who have engaged with the employer to arrange settlement.

An Employers Forum was held in November, and the importance of the statutory deadline was strongly reiterated to all employers.

- **Annual Benefit Statements**

Annual Benefit statements were published in August 2023 on the Member Self Service (MSS) portal to allow members to view information as they require. Emails were issued to all registered members to advise the statement was available for viewing.

Prior to publication, all active and deferred members who weren't already ready registered for MSS were issued with activation keys and portal instructions to register. However, paper copies still remain available on request and 7% of members opted for this.

- **Annual & Lifetime Allowances**

Annual allowance statements are issued annually, prior to the 6th of October. The current annual allowance threshold remained £40,000, and 102 members received statements notifying them of excess.

The UK Government introduced legislation to abolish the lifetime allowance from 6th April 2024. They have however introduced two new lump sum limits and conditions in order to restrict the amount of tax-free cash an individual can take over their lifetime. As with the lifetime allowance, most LGPS members will not be affected by the new lump sum limits below:

| Limit | Lump sums included | Lump sum allowance (LSA) |
|---|---|---|
| £268,275 | Pension commencement lump sums (PCLS) and uncrystallised funds pension lump sums (UFPLS) | Lump sum and death benefit allowance (LSDBA) |
| £1,073,100 | PCLS, UFPLS, serious ill health lump sums (SIHLS), authorised lump sum death benefits | |

- From 6 April 2024, if a member takes a PCLS from the LGPS, funds will need to check the lump sum fits with the LSA and LSDBA. Funds will also still need to ask members how much lifetime allowance they have used before 6 April 2024 in order to do this.
- If an individual holds valid LTA protections the LSA and LSDBA are increased.
- The maximum PCLS is the lowest of:
- 25 per cent of the capital value of the benefits
  - the remaining LSA
  - the remaining LSDBA
- Where a member has taken payment of pension benefits previously, the LSA and LSDBA are reduced accordingly. The standard calculation is the LSA less:
  - the total of any PCLS and non-taxable amounts of UFPLS paid since 6 April 2024
  - an amount equal to 25 per cent of the percentage of LTA previously used.
- However, if the member has a transitional tax-free amount certificate the calculation is:
  - the total of any PCLS and non-taxable elements of UFPLS paid since 6 April 2024
  - the individual's transitional tax-free amount.
- The LSDBA is amended similarly except that 100% of any serious ill health lump sums previously paid is deducted. Funds will also deduct any authorised death benefit lump sums previously paid.

**Transitional tax-free amount certificates**

A member may wish to apply for a transitional tax-free certificate if they opted to take a PCLS or UFPLS of less than 25 per cent when they took their benefits before 6 April 2024. In reality, this is only going to be needed where the amount of PCLS or UFPLS they can take over their lifetime is limited by the LSA and LSDB.

- **National Fraud Initiative**

Tayside Pension Fund continues to participate in the counter-fraud initiative led by Audit Scotland. The Fund continues to participate in the supplementary exercise following on from the biennial exercise as it provides additional checks to be carried out against pensioner records. For all identified cases a process of review and action is set to rectify overpayments made.

- **McCloud & Sargeant (age discrimination remedy)**

On 26 June 2023, the Scottish Government published a consultation and draft regulations concerning the McCloud remedy. The consultation closed on 31 July 2023. It sought views on proposals to address discrimination found by the courts in the McCloud case. This followed the consultation the Scottish Government which ran in 2020.

This consultation focussed on new approaches in certain areas that reflected the responses to the 2020 consultation, and more closely aligned the LGPS to policies adopted by other public service pension schemes. They sought views on the following:

- No aggregation requirement: underpin protection will extend to a new pension account that started before 1 April 2022, even if the earlier period of membership is not aggregated, as long as there has not been a disqualifying break.
- Previous membership of another public service pension scheme on or before 31 March 2012: a member will qualify for underpin protection because of earlier membership of another public service pension scheme, even if the pension rights from the other scheme have not been transferred to the LGPS, as long as there has not been a disqualifying break.
- Flexible retirement: a member with underpin protection who takes flexible retirement before 1 April 2022 will also have underpin protection on any benefits built up after flexible retirement and before the end of the underpin period. The consultation also considers how the underpin will operate when a member takes partial flexible retirement.

The consultation also covered topics that were not included in the 2020 consultation. These included:

- policies for individuals with excess teachers membership
- when a member may be paid compensation if they have suffered a loss relating to the discrimination found in the McCloud case or the McCloud remedy
- the interest terms that will apply when payments are made late due to the McCloud discrimination.

The Scottish Government laid The Local Government Pension Scheme (Remediable Service) (Scotland) Regulations 2023 on 30 August 2023. These come into force on 1 October 2023. The regulations implemented the McCloud remedy and amended the underpin rules to make sure they work correctly.

Part 2 of the regulations replaces the underpin rules in the LGPS (Transitional Provisions and Savings) (Scotland) Regulations 2014. It also makes related changes to the LGPS (Scotland) Regulations 2018. Part 3 requires administering authorities to check past calculations for events that happened between 1 April 2015 and 30 September 2023.

**Local Government Association (LGA) support**

In order to implement the new regulations, the LGA issued an initial volume of McCloud remedy Guidance to LGPS funds. Further 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.

**Government Actuaries Department (GAD)– Transfer Guidance**

On 5 March 2024, the SPPA, issued a new version of the GAD Transfer actuarial guidance and an Interfund addendum document. Both documents came into effect immediately, however, the transfer guidance did not contain any new factors (and these remain outstanding), but does provide additional information about how the McCloud remedy will affect certain calculations.

**Interfund addendum advice**

In October 2023, the SPPA confirmed that interfund transfer payments in respect of members protected by the McCloud remedy could continue to be based on the methodology set out in the Individual Incoming & Outgoing Transfers guidance dated 14 August 2020. The Interfund guidance addendum published on 5th March 2024 confirms this arrangement can continue until 29 April 2024.

The SPPA understands that updates to administration systems (as a result of the new actuarial guidance) will not happen immediately, and that these transitional arrangements aim to prevent administering authorities from building up a backlog of interfund cases while systems are updated and checked.

**Transfers**

Certain cases had been on hold since the LGPS regulations were amended to implement the McCloud remedy from 1 October 2023. Publication of the Individual Incoming & Outgoing Transfers guidance means administering authorities now have the information they need to process:

- transfers in on Club and non-Club terms
- transfers out of deferred benefits on Club and non-Club terms.

At present, pension system updates required to reflect the new calculations have yet to be introduced, and discussions with software providers are ongoing. Depending on the outcome of these, it may be necessary to continue manual calculations in urgent cases to ensure any statutory deadlines are met.

On 8th March 2024, the LGA issued guidance for calculating the McCloud element of a non-Club transfer value. Although basic, this will allow funds to calculate the McCloud element of a non-Club transfer value for a member who is under 65.

**Deferred refunds**

There are outstanding queries remaining concerning the treatment of transfers out of deferred member refunds. It is not clear whether the McCloud remedy applies to any or all members who hold a deferred refund in the LGPS, nor whether they would gain or retain protection on transfer to a different public service pension scheme. Although the LGA have issued guidance, there are a number of operational queries ongoing to be decided upon to enable calculations to be undertaken.

**Divorce cases**

Currently Funds can proceed with divorce quote cases for members protected by the McCloud remedy, however pension sharing order guidance remains outstanding.

- **Pension Dashboards**

An assessment of the Fund's current dashboard data readiness was carried out by the pension system provider to ensure that Fund's data is dashboards ready and maintained on an ongoing basis, as data quality is key to delivering a smooth experience for both members and the Fund.

There are two types of data relevant to Pensions Dashboards:

- **Find Data -** This is the personal data used to match a member who has logged into the dashboard to their records held by the Fund.
- **View Data -** This is information about a member's pension benefits which is returned to the user via the Pensions Dashboards.

The assessment analysed the Fund's data to determine onboarding readiness, and exception items were given a rating, based on both the impact of the issue (on members and admin team) and the volumes of specific issues using a traffic light system.

No red areas were identified, but amber areas were identified in relation to the following:

**Find Data**
- Member names – middle and previous names are not necessarily held on our records
- Unlinked Members – Altair will, on creation link together member records, however this has not always been in place and as such some remain unlinked.

**View Data**

- Missing previous employer data – this was identified in records which were converted from a previous system onto the current pension system.

The fund is taking actions to address the above, but also putting in place a package of data readiness products including:

- ongoing data cleansing and enrichment services
- mortality and address tracing service
- product for dashboard readiness.

- **Tiered Contributions Rate Guidance**

Under the Local Government Pension Scheme (Scotland) Regulations 2014, the earnings ranges used to determine annual contributions rates are to be increased each year by any increase applied to pension under the Pensions (Increase) Act 1971. In March 2023 the SPPA amended the guidance to reflect the above and a copy of this guidance was forwarded to all scheme employers. This guidance came into effect from 1 April 2023.

- **Employer Communications**

Employer sessions were held via MS Teams, the topics covered were Iconnect and AVC payments.

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

- **I-Connect and Member Self Service**

**I-Connect**

I-Connect is a cloud-based system that manages the flow of employee information from the payroll system to the fund's pension administration system. The software enables employers to provide employee information in a secure method. The monthly data uploads inform the Fund of any changes to members details, new joiners and leaver forms, removing the burden of cumbersome employer year end reporting. This system was rolled out to all scheme employers during 2021/22.

34 employers are now using IConnect on a monthly basis. Although all employers have been advised of deadline for monthly submissions, uptake has been slower than desired. The team have engaged with those employers yet to onboard to assist them, and plans are now in place for mandatory full operational implementation by end of May 2024.

**Member Self Service**

The member portal (MSS – Member Self Service) was introduced in 2021. The MSS portal is now utilised to issue members with documents, letters and calculation summaries including new joiner communications, estimates and retirement details. With the implementation of the Insights reporting module is can identify the reporting of individual users and by the end of 2023/24, there were a total 15526 users registered.

- **Contact Centre**

The telephone contact centre launched in January 2022, with all incoming calls automatically routed to the call centre. In the year to 31/03/2024 the numbers of calls received via the call centre was 11,461 with 75% of these being answered within the first three rings.

- **Website**

The website is a key source of information to members along with news updates and Fund related resources being added as required. The website has an employer's section where the Fund is able to publish documents and information specific to the employer. A link to the Member Self Service (MSS) portal is also provided on the website, which gives members a direct link to the service for registration or viewing of their pension records and documents.

- **Meetings, User Groups and Forums**

Representatives attended quarterly meetings of the Joint Scottish Liaison Group (SPLG) and Investment & Governance Groups, along with representation from the Local Government Association and the Scottish Public Pensions Agency. Representatives of the Fund also attended and participated in webinars as members of the Computerised Local Authority Superannuation System (CLASS) Group whose membership is made up of all 11 Scottish Funds and 80 English and Welsh Funds. Participation in specialist user groups for I-Connect and Member Self Service (MSS) were also attended. During 2023/24 sessions continue to be held with employers' vis MS Teams along with an Employers Forum in November to cover topics on the Valuation, Iconnect and McCloud.

- **Payment of Pensions**

Tayside Pension Fund continues to operate two monthly payrolls to retiring members. The main payroll is on the 20th of each month, with the legacy payroll on the last working day of each month. During 2023/2024 all monthly pension payroll payments were made on their due date.

- **CARE Scheme Revaluation**

The Local Government Pension Scheme (Scotland) Regulations 2015 require that pension accounts built up from 1 April 2015 are revalued at the end of each scheme year. The Order published provided for a 10.1% revaluation with effect from 1 April 2023.

- **Pension Increase**

Pensions in payment and those in deferment are indexed annually based on the annual change in the Consumer Price Index (CPI) measured as at the previous September. The Order provided for a 10.1% increase with effect from 6 April 2023.

- **Tiered Contributions Rate Guidance**

Under the Local Government Pension Scheme (Scotland) Regulations 2014 the earnings ranges used to determine annual contributions rates are to be increased each year by any increase applied to pension under the Pensions (Increase) Act 1971. In March 2023 the SPPA amended the guidance to reflect the above and this became effective from 1 April 2023.

- **Staffing 2023/24**

Resourcing continues to be very challenging for the team, and throughout the year, recruitment exercises have taken place for vacancies arising from turnover. Whilst this has provided opportunities for internal appointments to promoted posts, this presents resourcing issues elsewhere. In house training is delivered by the more experienced staff as well as online, however there is inevitable impact on performance. An exercise to review current caseloads and trends is ongoing to assess adequate resourcing to continue to meet statutory requirements.

- **Consultations**
  - In May, HMRC launched a consultation on The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) (No.2) Regulations 2023.

  - The draft regulations supplement The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023 ('first set of regulations'), which came into force on 6 April 2023.

- The first set of regulations modifies various tax legislation, so the correct tax treatment is applied when public service schemes implement the McCloud remedy. For more information, see the commentary provided by the LGA.

- https://lgpslibrary.org/assets/cons/nonscheme/20230522_McCloud_tax_No2_CR.pdf

- The draft regulations propose further modifications. HMRC will shortly publish guidance on the draft regulations. As part of the consultation, HMRC will hold several round tables. These will provide an opportunity to raise any technical points on the draft regulations.

- The consultation closes on 19 June 2023.

**Consultation on annual allowance changes**

- HMRC had a consultation on changes to the annual allowance for unfunded public service pension schemes. HMRC also consulted on changes set out in the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) Order 2024. The purpose is to allow legacy and reformed scheme benefits to be combined when working out a member's pension input amount for annual allowance purposes, where they relate to the same employment.

- **Revised Ill Health Guidance**

The Scottish Public Pensions Agency (SPPA) published a Circular on 14 March 2024. The circular introduces revised ill health guidance. This updated guidance incorporates feedback from stakeholders and aligning with the principles set out by The Pensions Ombudsman.

The key changes to the guidance are that for active members, employers will be required to undertake a review of the case specifics and recommendations made by the Occupational Health Professional, and determine eligibility of case. For deferred members, this review will be undertaken by the Fund.

**Legislation Update**

During 2023/24 the following legislation came into effect:

| Instrument | Title | Topic | Link |
|---|---|---|---|
| SI2023-270 | The Guaranteed Minimum Pensions Increase Order 2023 | Increases value of GMPs within system 3% increase applied. | The Guaranteed Minimum Pensions Increase Order 2023 (legislation.gov.uk) |
| SI2023-338 | The Pension Increase Review Order 2023 | Pensions in payment and deferment is indexed annually based on the annual change in Consumer Price Index (CPI) as at the previous September. 10.1% increase was applied. | The Pensions Increase (Review) Order 2023 (legislation.gov.uk) |
| SI2023-232 | The Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Fund Payments) Regulations 2023 | For employer action – relates to national insurance thresholds | The Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2023 (legislation.gov.uk) |
| SI2023-252 | The Public Service Pensions Revaluation Order 2023 | Order provided for a 10.1% increase to be applied to CARE benefits | The Public Service Pensions Revaluation Order 2023 (legislation.gov.uk) |
| SI2023-266 | The Social Security Revaluation of Earnings Factors Order 2023 | For employer action – relates to level of national insurance | The Social Security Revaluation of Earnings Factors Order 2023 (legislation.gov.uk) |

| | | | |
|---|---|---|---|
| | | contributions being in line with earnings in relation to GMP | |
| Circular 1/2024 | PI Review and revaluation order | Notification of the increase to pensions with effect from 08/04/2024 and also of the annual revaluation rate to be applied to CARE pensions. Rate to be applied is 6.7% | 202401_LGPS_Circular_The_Pensions_Increase_(Review)_Order_2024_The_Public_ServicePensions_Revaluation_Order_2024.pdf |
| Circular 2/2024 | Tiered contributions rate guidance for 2024 | For employer action – relates to employee contribution rates to be applied wef 01/04/2024 | 2024-02_LGPS_Circular_Employer_Guidance_for_the_Assessment_of_Member_Contribution_Rates.pdf (pensions.gov.scot) |
| Circular 3/2024 | Updates to the Ill Health Retirement and Internal Dispute Resolution Procedure Guidance | Update notification on ill health guidance for those responsible for making the decisions on ill health retirals | 2024-03_LGPS_Circular_Updates_to_the_Ill_Health_Retirement_and_Internal_Dispute_Resolution_Procedure_guidance.pdf (pensions.gov. scot) |

## SCHEDULED AND ADMITTED BODIES

Scheduled Bodies are those detailed in Schedule 2 Part 1 of the Regulations, with the most current being in the Local Government Pension Scheme (Scotland) Regulations 2014. For example, the bodies are Local Authorities, Colleges, Transport Authorities.

Admitted Bodies are those described in Schedule 2 Part 2 of the same Regulations and detail the type of bodies along with the requirements to be considered prior to admission (and the signing of the formal admission agreement).

The employers with active members as at 31 March 2024 were as follows -

**Scheduled Bodies (12)**

Angus Council
Dundee City Council
Dundee and Angus College
Perth & Kinross Council
Perth College
Scottish Fire & Rescue Service (Civilians)
Scottish Police Authority (Civilians)
TACTRAN
Tayplan
Tay Road Bridge Joint Board
Tayside Contracts
Tayside Valuation Joint Board

**Admitted Bodies (29)**

Abertay Housing Association
Angus Alive
Care Inspectorate
Culture Perth & Kinross
Dorward House
Dovetail Enterprises
Duncan of Jordanstone College of Art
Dundee Citizens' Advice Bureau
Dundee Contemporary Arts Ltd
Dundee Science Centre
Dundee Voluntary Action
Forfar Day Care Committee
Highlands & Islands Airports Ltd
idverde
Leisure and Culture Dundee
Live Active Ltd
Mitie PFI Ltd
Montrose Links Trust
Montrose Port Authority
Perth & Kinross Countryside Trust
Perth & Kinross Society for the Blind
Perth Citizens' Advice Bureau
Perth Theatre Co Ltd
Robertsons Facilities Management
Rossie Secure Accommodation Services
Scottish Social Services Council
Sodexo
University of Abertay, Dundee
Xplore Dundee

# CONTACT INFORMATION

**Key Documents Online**

The following documents are on the website's publications section: https://taysidepensionfund.org/resources/

- Actuarial Valuation Reports
- Funding Strategy Statement
- Statement of Investment Principles
- Treasury Management Strategy
- Risk Register
- Annual Report and Accounts

**Contact Details**

Enquiries regarding investments, individual benefits, contributions or pensions in payment or requests for further information should be addressed to: -

Tracey Russell, Senior Financial Services Manager
Dundee City Council, Floor 4, 50 North Lindsay Street, Dundee DD1 1NZ

**Other Contacts**

**The Pensions Ombudsman**

10 South Colonnade

Canary Wharf

E14 4PU

https://www.pensions-ombudsman.org.uk/

The Pensions Ombudsman is an independent organisation set up by law to investigate complaints about pension administration and has the remit to consider complaints about personal and occupational pension schemes.

**The Pensions Advisory Service has now been incorporated into Money Helper**

120 Holborn

London

EC1N 2TD

https://www.moneyhelper.org.uk/en

Moneyhelper, (previously The Pensions Advisory Service (TPAS)), provide independent and impartial information and guidance about pension, free of charge to members of the public. They deal with all pension matters covering workplace, personal and stakeholders' scheme and also the State Scheme.

**The Pension Tracing Service**

The Pension Service 9

Mail Handling Site A

Wolverhampton

WV98 1LU

https://www.gov.uk/find-pension-contact-details

This is a register of all workplace pension schemes who provide assistance to individuals searching for the contact details of any previous pension rights.

**The Pensions Regulator**

Napier House

Trafalgar Place

Brighton

BN1 4DW

http://www.thepensionsregulator.gov.uk/

The Pensions Regulator is the public body that protects workplace pensions in the UK. They work with employers and scheme administrators so that people can save safely for their retirement. They ensure that employers meet their ongoing automatic enrolment duties and provide effective regulation for defined benefit schemes and looks to promote good trusteeship through improving governance and administration.

City Chambers
DUNDEE
DD1 3BY

14th June, 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, 24th June, 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, 21st June, 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 18th March, 2024 copy enclosed).

**4 RISK REGISTER - Page 7**

(Report No183-2024 by the Executive Director of Corporate Services, copy enclosed).

**5 TAYSIDE PENSION FUND INTERNAL AUDIT REPORTS – ESP AND TPR GENERAL CODE ADVISORY REVIEWS - Page 23**

(Report No184-2024 by the Executive Director of Corporate Services, copy enclosed).

**6 TAYSIDE PENSION FUND INTERNAL AUDIT REPORT 2023/24 - Page 65**

(Report No185-2024 by the Executive Director of Corporate Services, copy enclosed).

**7 PENSION ADMINISTRATION PERFORMANCE – QUARTERLY UPDATE TO 31ST MARCH, 2024 - Page 89**

(Report No186-2024 by the Executive Director of Corporate Services, copy enclosed).

**8 TAYSIDE PENSION FUND ANNUAL GOVERNANCE AND GOVERNANCE COMPLIANCE STATEMENTS - Page 107**

(Report No 187-2024 by the Executive Director of Corporate Services, copy attached).

**9 TAYSIDE PENSION FUND ANNUAL REPORT AND ACCOUNTS 2023/24**

(Report No 188-2024 by the Executive Director of Corporate Services, copy to follow).

**The Sub-Committee may resolve under Section 50(A)(4) of the Local Government (Scotland) Act 1973 that the public and press 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.**

**10 TAYSIDE PENSION FUND**

**11 SOCIALLY RESPONSIBLE INVESTMENT - SIX MONTHLY REPORT**

**12 FUND MANAGER 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 18th March, 2024.

Present:-

PENSION SUB-COMMITTEE

BAILIE Kevin KEENAN

COUNCILLORS

| | | |
|---|---|---|
| Ken LYNN | Dorothy McHUGH | Michael CRICHTON |
| Steven ROME | | |

PENSION BOARD

| | | |
|---|---|---|
| Bill DUFF | Stewart DONALDSON | Arthur NICOLL |
| George RAMSAY | | Kenny DICK |

Councillor Steven ROME, 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 Bailie Sawers.

**III MINUTE OF PREVIOUS MEETING**

The minute of meeting of 11th December, 2023 was submitted and approved.

**IIIa CHAIR OF PENSION BOARD**

**IV TAYSIDE PENSION FUNDS RISK REGISTER**

There was submitted Report No 89-2024 by the Executive Director of Corporate Services seeking approval for the Quarterly Risk Register for Tayside Pension Fund which was updated on 13th February, 2024, noting the 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 following revision made:

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

**V TAYSIDE PENSION FUND PROCUREMENT POLICY**

There was submitted Report No 71-2024 by the Executive Director of Corporate Services setting out the minimum standard 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.

The Sub-Committee and Board:-

(i) approved the policy noting that it was subject to annual review and that there were no changes.

**VI PENSION ADMINISTRATION PERFORMANCE – QUARTERLY UPDATE TO 31ST DECEMBER, 2023**

There was submitted Report No 73-2024 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.

**VII TAYSIDE PENSION FUND – AUDIT SCOTLAND ANNUAL AUDIT PLAN 2023/24**

There was submitted Report No 74-2024 by the Executive Director of Corporate Services providing a summary of the responsibilities and approach of Audit Scotland in respect of Tayside Pension Fund for 2023/24.

The Sub-Committee and Board:-

(i) noted the content of the report; and

(Ii) agreed to 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.

**VIII INTERNAL AUDIT RISK ASSESSMENT & AUDIT PLAN 2024/25**

There was submitted Report No 75-2024 by the Executive Director of Corporate Services setting out the risk assessment undertaken by PwC and detailing their internal audit plans for Tayside Pension Fund for 2024/25.

The Sub-Committee and Board:-

(i) agreed to review and approve the Internal Audit plan by PricewaterhouseCoopers (PwC) as detailed in appendix A of the report.

**IX TAYSIDE PENSION FUND INTERNAL AUDIT REPORTS – PENSIONS ADMINISTRATION & LIQUIDITY**

There was submitted Report No 76-2024 by the Executive Director of Corporate Services submitting the Audit Reports prepared by the Fund's Internal Auditor, PricewaterhouseCoopers (PwC).

The Sub-Committee and Board:-

(i) noted the content of the report on the audit exercises undertaken and approved the management response.

**X TREASURY POLICY STATEMENT 2024/25**

There was submitted Report No 77-2024 by the Executive Director of Corporate Services revising the Fund's Treasury Policy Statement which was intended to govern all treasury activities carried out by Tayside Pension Fund.

The Sub-Committee and Board:-

(i) approved the policies and procedures laid out in the "Treasury Policy Statement 2024/25", noting that the Treasury Policy Statement must be reviewed annually, and that there were no changes.

**XI TREASURY MANAGEMENT STRATEGY 2024/2025**

There was submitted Report No 78-2024 by the Executive Director of Corporate Services seeking agreement for reviewing the Treasury Management Strategy for Tayside Pension Fund.

The Sub-Committee and Board:-

(i) agreed to review the Treasury Management Strategy for Tayside Pension Fund.

**XII PENSION ADMINISTRATION STRATEGY**

There was submitted Report No 79-2024 by the Executive Director of Corporate Services setting out the Fund's policy in respect of the standards required of both the Fund and the participating employers to ensure that statutory obligations were met and also to demonstrate effective and efficient service delivery. The strategy contained a variety of performance measures against which the Fund and participating employers were assessed, with performance reported to the Committee.

The Sub-Committee and Board:-

(i) agreed to approve the strategy contained within, noting that there were no changes.

**XIII TAYSIDE PENSION FUND COMMUNICATION POLICY**

There was submitted Report No 80-2024 by the Executive Director of Corporate Services presenting a communications policy as required by the Local Government Pension Scheme (Scotland) Regulations 2014.

The Sub-Committee and Board:-

(i) approved the revised Communications Policy which had 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 was in line with other Scottish LGPS Funds.

**XIV ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE POLICY**

There was submitted Report No 81-2024 by the Executive Director of Corporate Services reviewing Tayside Pension Fund's Environmental, Social & Corporate Governance Policy.

The Sub-Committee and Board:-

(i) approved the policy and noted that there were no changes.

**XV TAYSIDE PENSION FUND ACTUARIAL VALUATION AT 31 MARCH 2023**

There was submitted Report No 82-2024 by the Executive Director of Corporate Services updating the Sub-Committee and Board on the Actuarial Valuation of Tayside Pension Fund at 31 March 2023.

The Sub-Committee and Board:-

(i) noted the information contained within the report and approved the actuarial recommendations contained in Appendix A to the report.

**XVI FUNDING STRATEGY STATEMENT 2024**

There was submitted Report No 83-2024 by the Executive Director of Corporate Services reviewing the Funding Strategy Statements for the Tayside Pension Fund.

The Sub-Committee and Board:-

(i) noted that the Funding Strategy Statement was required to be reviewed annually, and approved the Statement, noting an amendment to the cessation approach following the strong rise in gilt yields since the end of 2022. The calculation method had been reviewed and adjustments had been made to the stochastic approach including a reduction of the probability limit of a deficit arising from 20% to 15%.

**XVII STATEMENT OF INVESTMENT PRINCIPLES REVIEW**

There was submitted Report No 84-2024 by the Executive Director of Corporate Services reviewing the Statement of Investment Principles for Tayside Pension Fund.

The Sub-Committee and Board:-

(i) noted the information within the report, noting the changes to benchmark in Appendix C effective from 1st April, 2024; and approved the Statements of Investment Principles contained in Appendix 1.

**XVIII TAYSIDE PENSION FUND BUSINESS PLAN 2024/2025**

There was submitted Report No 85-2025 by the Executive Director of Corporate Services introducing the annual business plan for the Tayside Pension Fund.

The Sub-Committee and Board:-

(i) noted the information within the report and approved the 2024/2025 Business Plan which applied to the administration and management of the Tayside Pension Fund.

**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.**

**XIX TAYSIDE PENSION FUND**

(a) TAYSIDE PENSION FUND PERFORMANCE SUMMARY

There was submitted Report No 86-2024 by the Executive Director of Corporate Services reviewing the investment performance of the Fund's investment managers for the quarter to 31st December, 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.

(b) SUMMARIES OF INVESTMENTS AND TRANSACTIONS 1ST OCTOBER TO 31ST DECEMBER 2023

There was submitted Report No 69-2024 by the Executive Director of Corporate Services reviewing the investment activities of Tayside Pension Fund's five Fund Managers for the quarter 1st October to 31st December, 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.

(c) SECURITIES LENDING 6 MONTH ACTIVITY TO 31ST DECEMBER, 2023

There was submitted Report No 87-2024 by the Executive Director of Corporate Services presenting an update on Securities Lending activity for the period ended 31st December, 2023.

The Sub-Committee and Board:-

(i) agreed to note the content of the report.

**XX ALTERNATIVE INVESTMENT MANDATE PROCUREMENT EXERCISE UPDATE**

A verbal update was given by the Service Manager, Financial Services on the Alternative Investment Mandate Procurement Exercise.

The Sub-Committee and Board:-

(i) noted the position.

**XXI ANNUAL PERFORMANCE REVIEW TO 31ST DECEMBER, 2023**

There was submitted Report No 88-2024 by the Executive Director of Corporate Services considering the Isio report '"Annual Review of Investment Performance 2023" completed in February 2024.

The Sub-Committee and Board:-

(i) noted the content of the Isio report in Appendix A to the report.

**XXII PRESENTATION**

Sarah Cockburn Olivia Docker and Lucie Liss from Schroders gave a short presentation to the Sub-Committee and Board.

After Ms Cockburn, Ms Docker and Ms Liss had given their presentation and answered questions from members, the Chair thanked the presenters on behalf of members of the Sub-Committee and Board.

Steven ROME, Chair.

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ITEM No …4………..

`REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 24 JUNE 2024

REPORT ON: RISK REGISTER

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 183-2024

## 1 PURPOSE OF REPORT

The Sub-Committee is asked to approve the Quarterly Risk Register for Tayside Pension Fund which was updated on 27th May 2024, noting no 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.

## 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.

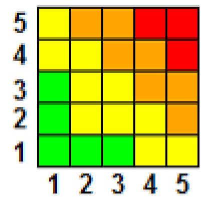
7 **BACKGROUND PAPERS**

None

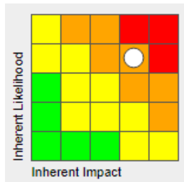
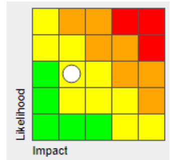
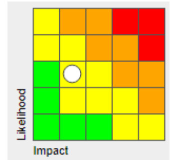
**ROBERT EMMOTT**
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES** **14 JUNE 2024**

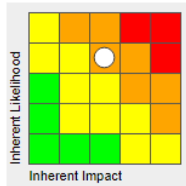
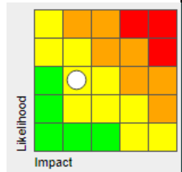
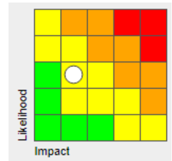
**Quarterly Risk Report**
**Report Type:** Tayside Pensions Fund Risks Report
**Report Author:** Executive Director of Corporate Services
**Generated on:** 27 May 2024

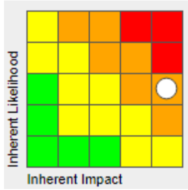
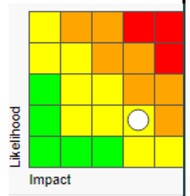
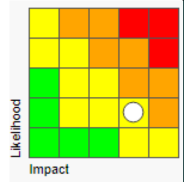
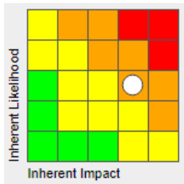
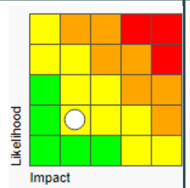
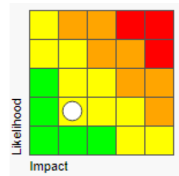
**Pentana Risk Matrix**

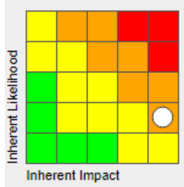
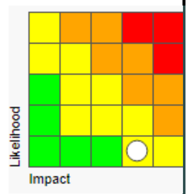
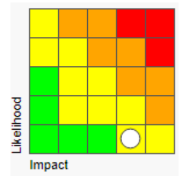
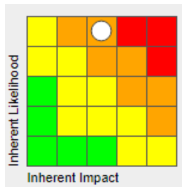
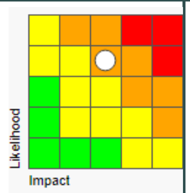
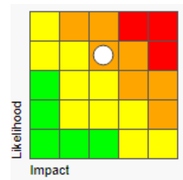


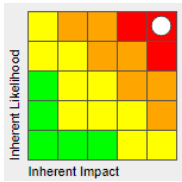
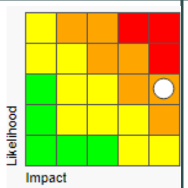
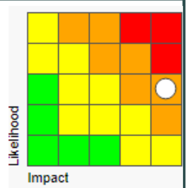

1 = Very Low
2 = Low
3 = Medium
4 = High
5 = Very High

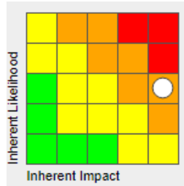
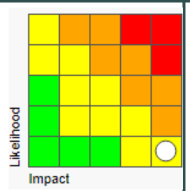
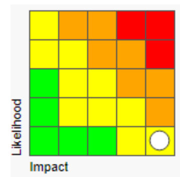
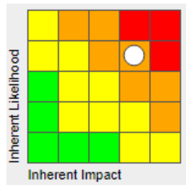
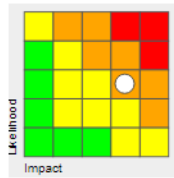
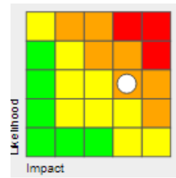
| Risk Type & Title | Causes | Impact | Consequence | Inherent Risk | Controls | Residual Risk (Previous Quarter) | Residual Risk (Current) |
|---|---|---|---|---|---|---|---|
| **Pension Administration**<br>(Risk appetite - minimalist)<br><br>1.Failure to process pension payments and lump sums on time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

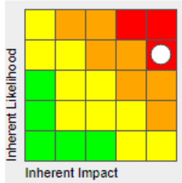
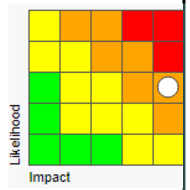
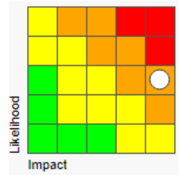
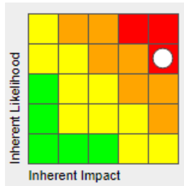
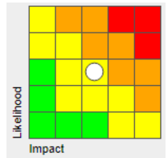
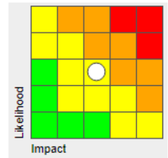
| Risk Type & Title | Causes | Impact | Consequence | Inherent Risk | Controls | Residual Risk (Previous Quarter) | Residual Risk (Current) |
|---|---|---|---|---|---|---|---|
| **Funding - Employer related**<br>(Risk appetite - cautious)<br><br>2.Failure to collect and account for contributions from employers and employees on time | • Non-availability of financial system (Fund and employer)<br>• Resource unavailable<br>• New staff undertaking duties<br>• Failure to communicate with employers effectively<br>• Failure of employer to provide required information<br><br>• Failure of employer to make financial settlement | • Adverse audit opinion<br>• Breach of statutory requirements<br>• Knock on effect on reporting requirements<br>• 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<br>• Potential delays to employers' FRS17 year-end accounting reports<br>• Loss of stakeholder confidence<br>• Recovery / legal action required<br>• Opportunity cost of lost investment income |  | • Robust maintenance and update of Resourcelink and Authority Financials systems<br>• Sufficient staff cover arrangements<br>• Staff training and checking of work.<br>• Ongoing employer communication to ensure they understand responsibilities to pay by the 19th of the month.<br>• Contribution tracker system<br>• Introduction of employer contribution payment flexibility within financial year (subject to agreement) |  | <br>No change |

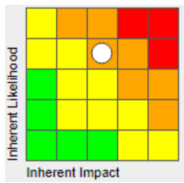
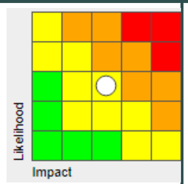
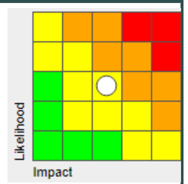
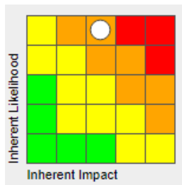
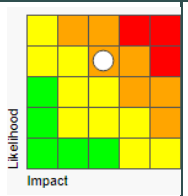
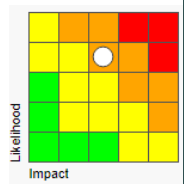
| Risk Type & Title | Causes | Impact | Consequence | Inherent Risk | Controls | Residual Risk (Previous Quarter) | Residual Risk (Current) |
|---|---|---|---|---|---|---|---|
| **Funding - Liquidity**<br>(Risk appetite - averse)<br><br>3.Insufficient funds to meet liabilities as they fall due | • Contribution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

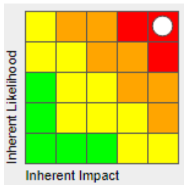
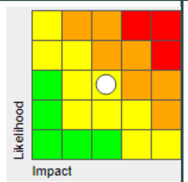
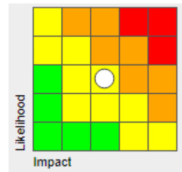
| Risk Type & Title | Causes | Impact | Consequence | Inherent Risk | Controls | Residual Risk (Previous Quarter) | Residual Risk (Current) |
|---|---|---|---|---|---|---|---|
| **Operational**<br>(Risk appetite - minimalist)<br><br>5.Loss of funds through fraud or misappropriation | • Fraud or misappropriation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

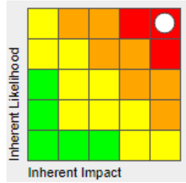
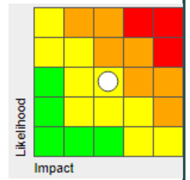
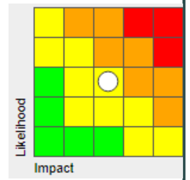
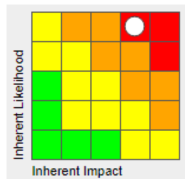
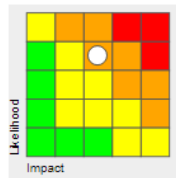
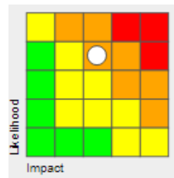
| Risk Type & Title | Causes | Impact | Consequence | Inherent Risk | Controls | Residual Risk (Previous Quarter) | Residual Risk (Current) |
|---|---|---|---|---|---|---|---|
| | • Employer liabilities increase disproportionately as a result of external factors (i.e. change in bond yields)<br>• Reduced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

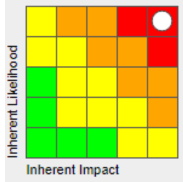
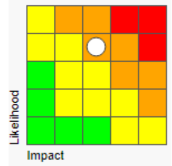
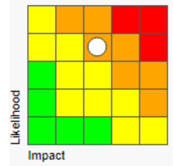
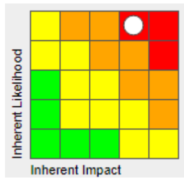
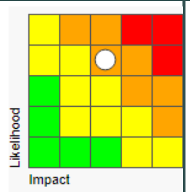
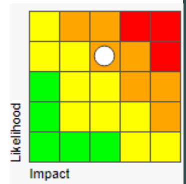
| Risk Type & Title | Causes | Impact | Consequence | Inherent Risk | Controls | Residual Risk (Previous Quarter) | Residual Risk (Current) |
|---|---|---|---|---|---|---|---|
| | | | | | different asset classes<br>• 10% asset shock reserve | | |
| **Operational**<br>(Risk appetite - minimalist)<br>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

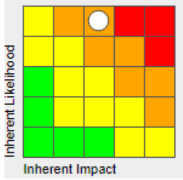
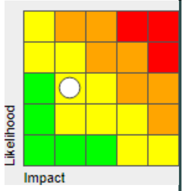
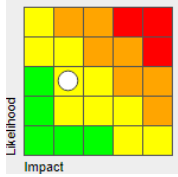
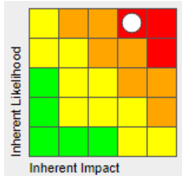
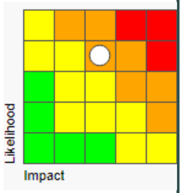
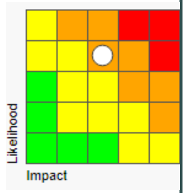
| Risk Type & Title | Causes | Impact | Consequence | Inherent Risk | Controls | Residual Risk (Previous Quarter) | Residual Risk (Current) |
|---|---|---|---|---|---|---|---|
| **Funding - Investment**<br>(Risk appetite - open)<br><br>10.Equity Risk | • Market sector falls substantially as a result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

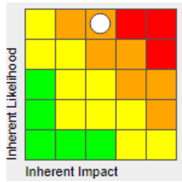
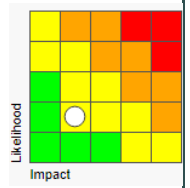
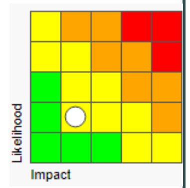
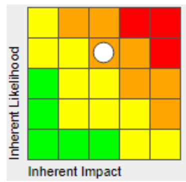
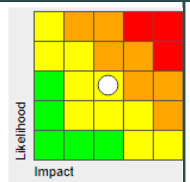
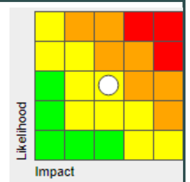
| Risk Type & Title | Causes | Impact | Consequence | Inherent Risk | Controls | Residual Risk (Previous Quarter) | Residual Risk (Current) |
|---|---|---|---|---|---|---|---|
| | • Inadequate procedures / process<br>• Lack of resources<br>• Error in interpreting requirements<br>• IT systems not updated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

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

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

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

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

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

**ITEM No …5………..**

**REPORT TO:** **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 24 JUNE 2024**

**REPORT ON:** **TAYSIDE PENSION FUND INTERNAL AUDIT REPORTS – ESG & TPR GENERAL CODE ADVISORY REVIEWS**

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

**REPORT NO:** **184-2024**

## 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 Memo – ESG Workshop (Appendix A)

4.2 The Pensions Regulators General Code of Practice (the Code) requires that governing bodies should include consideration of ESG matters relating to fund investments and take an active role in exercising the whole range of rights and responsibilities given to them through its investments. The Pensions Regulator also launched an initiative in February 2023 to check whether trustees are publishing important data on ESG, and there is increased regulatory scrutiny to ensure trustees are meeting their ESG and climate change reporting duties.

As part of the 2023/24 Internal Audit, PwC conducted a workshop with the objective of understanding actions already taken by management, and also provide guidance as how to meet increasing requirements and best practice. The memo details findings and recommendations for the Fund.

4.3 Internal audit Memo - General Code Advisory Review (Appendix B)

The revised General Code of Practice (the "General Code") covering governance requirements for private and public sector pension schemes was issued by the Pensions Regulator ("TPR") in January 2024, to be effective from 27 March 2024.

The overriding legal requirement for a public scheme as set out in the General Code is principally to have effective internal controls in place for scheme management and to have processes in place for these controls to be reviewed. Pension funds are required (where applicable) to sufficiently demonstrate and show evidence for how main areas of risk are addressed within its operational activities in order to meet the applicable General Code requirements.

As part of the 2023/24 Internal Audit, PwC conducted a workshop focusing on key questionnaire responses that were most relevant as managers of a public sector scheme. A gap analysis was performed to assess current governance against new standards and good practice. The memo details findings and provides further guidance and considerations for industry good practice.

## 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** **14 JUNE 2024**

# Internal audit memo 2024

# ESG Workshop

Tayside Pension Fund
Final
May 2024

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# Contents



## Distribution list

For action / consideration: Tracey Russell (Senior Manager, Financial Services), Stuart Norrie (Senior Banking & Investment Officer)

# Background and work performed

## Background

In March 2023, Tayside Pension Fund ("TPF") published its policy on Environmental, Social and Corporate Governance ("ESG") which sets out the principles for embedding ESG in investment analysis and decision-making processes. TPF endeavour to 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: 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.

The general code of practice (the Code) requires that governing bodies should include consideration of ESG matters relating to fund investments and take an active role in exercising the whole range of rights and responsibilities given to them through its investments. Governing bodies required to prepare a Statement of Investment Principles must have a policy on the exercise of the rights attaching to its investments. The Pensions Regulator also launched an initiative in February 2023 to check whether trustees are publishing important data on ESG. There is increased regulatory scrutiny to ensure trustees are meeting their ESG and climate change reporting duties.

Taking this into account, it was agreed that as part of the 2023/24 Internal Audit plan a review, via a workshop, would be performed with the objective of understanding actions already taken by management; management's ongoing project plans; and provide feedback on management's articulation of plans.

## Summary of work performed:

**Documents reviewed (only for areas related to ESG):**

- Socially Responsible Investment (SRI) report, 11 December 2023
- Environmental, Social & Corporate Governance (ESG) Policy, 20 March 2023
- Annual Report, 31 March 2023 including the Task Force on Climate-related Financial Disclosures (TCFD) report and annual governance statement
- Statement of Investment Principles Review, 20 March 2023
- Risk Management Policy & Strategy, 26 June 2023
- Risk Register, 11 December 2023
- Training & Attendance Policy and Training Plan 2023/24, 20 March 2023
- Treasury Management Strategy 2023/2024, 20 March 2023
- Treasury Policy Statement 2023/24, 20 March 2023

The workshop was held on 27 February 2024 and discussed the below ESG scope areas in relation to TPF, including how these apply to the fund, observations made in respect of existing documentation and strategy, as well as recommendations for potential areas of improvement:

- Scope and materiality
- Ambition and strategy
- Reporting, KPIs and data
- Governance

This memo provides a summary of the workshop outputs.

# Summary of observations

## Summary of observations

Through open discussions with the workshop attendees, we explored the areas above to understand TPF's approach to ESG risk and level of alignment with good practice as well as opportunities for enhancement. The discussions and insights from the workshop helped to inform the considerations presented in this memo. In conclusion, Management has been able to articulate:

- A clear understanding of how it currently considers / manages ESG risk;
- How it envisages enhancing its current approach and resulting strategy; and
- Its commitment to progressing such enhancement.

As a result of the workshop and information gleaned from the various supporting documents, we believe some improvement is required in order to align with industry requirements and good practice. We have summarised the areas we believe Management should provide focus to in order to enhance its approach to ESG:

- **ESG Scope and Materiality:** TPF has defined the scope of its ESG strategy, including a clear statement on its approach. However, in respect of identified material ESG risks, we believe additional analysis is required. For example, supporting documentation provides limited details regarding actions taken to mitigate climate-related risks. There is also a lack of clarity on what is in scope for the net zero commitment.

- **Ambition and Strategy:** TPF's TCFD disclosure states that whilst TPF has no explicit climate strategy, it is committed to ensuring that the investment strategy is consistent with achieving the goal of global net-zero emissions by 2050 if conditions allow. The SRI Policy and ESG Policy set out TPF's approach to ESG and how it is consistent with fiduciary duty. Notwithstanding, TPF's ESG strategy does not clearly set out its ambition and there is no tangible tracking of progress against its approach. TPF's plans in place to achieve its Net Zero commitment lacks detail and does not appear to be integral to TPF's ESG commitment.

- **Reporting, KPIs and Data:** The ESG Policy includes high level targets for companies held within the segregated equity mandates but there is no further detailed ESG metrics or targets. TPF's Net Zero target is limited in that it only applies to energy companies and TPF does not set out how it monitors investment manager's against targets set. There is also little mention of data quality or coverage. The progress towards targets is measured for its carbon emissions, but have not set out the methodologies used to do so. Emissions are disclosed year on year but there is no evidence of tracking progress against the Net Zero ambition.

- **Governance:** TPF should have in place effective governance structures in place to ensure appropriate oversight and monitoring of ESG strategy. TPF point to the Annual Governance Statement for information regarding the governance structure, but there is no specific mention of ESG governance in this statement. With regards to holding its investment managers to account on achievement of its ESG ambitions, Management were able to articulate its requirements. There is however limited documented evidence of how this is performed in practice, or how specific ESG metrics and targets are included within investment mandates.

# Summary of observations

Where recommendations have been made, we have provided our view of where TPF should focus time and resources in order to align itself to industry and good practice. We have also provided a view as to the level of effort required to implement these recommendations. The numbers in the table below correspond to the recommendations numbered and detailed on pages 6 to 8 and the coloured dots align to the level of priority.

**Ease of Implementation**

**Level of priority**

| | Quick Wins | Medium term effort/implementation time taken to action | Longer term effort/implementation time taken to action |
|---|---|---|---|
| **Higher** | 4, 5, 6, 17 | 2, 10, 12, 15 | |
| **Medium** | 9, 16 | 7, 11, 13, 18 | 3 |
| **Lower** | | 1, 19 | 8, 14 |

**Summary of Recommendations:**

1. Materiality Assessment of ESG topics (double materiality assessment)
2. Material Climate-related risks analysis
3. ESG Scenario Analysis
4. Assets in scope for Net Zero by 2050
5. The fund commitment to ESG
6. Measures taken to address ESG-related risks
7. Collaboration with other investors on ESG issues
8. Member feedback on the fund's ESG approach
9. Sustainability and Climate Change paper
10. Recommended TPR metrics
11. Available data for assets
12. ESG-related measurable targets and progress reporting
13. Other high emitting sectors considerations
14. Transition plan for climate commitments
15. Governance Structure ESG alignment
16. Sub-committee ESG Risk Assessment
17. Sub-committee and Board Members' Skills and Experience
18. Investment Manager ESG Metrics and Targets
19. Opportunities to pursue ESG issues

# Observations and recommendations

| Scope Area | TPF Objectives | Observations | Recommendations |
|---|---|---|---|
| **Scope and Materiality** | • TPF has defined the scope of its ESG strategy, including a clear statement on its approach.<br>• TPF has identified its material ESG risks and opportunities and set out measures to mitigate or manage these. | **Relevant Disclosures Considered:**<br>• The SRI Policy and ESG Policy set out TPF's approach to ESG.<br>• TCFD report includes high level summary of climate-related risks.<br>• TCFD report includes high level summary of climate-related opportunities.<br>• TPF's Risk Policy and Strategy Statement includes risk of "Failure to implement ESG policy", and associated controls.<br><br>**Observations Noted:**<br>• Documentation provides a brief summary of climate risks, but does not quantify the risks. Although there is a commitment to conduct scenario modelling in the future, documents do not include scenario analysis.<br>• There is little mention of measures taken to mitigate climate-related risks. However, during the workshop, Management stated that climate risk is now considered within the triennial valuations.<br>• There is a lack of clarity on what is in scope for the net zero commitment.<br>• There is no assessment of materiality of ESG issues and its likely impact on the fund. | We recommend TPF to do the following:<br>1. Assess which ESG topics are most material to TPF (conduct a double materiality assessment)<br><br>2. Develop a more detailed analysis of the fund's material climate-related risks and opportunities, and their potential impact on the fund.<br><br>3. Conduct scenario analysis to quantify how these may impact the fund's investment and funding strategy over different time horizons (short, medium and long) and different temperature change scenarios (e.g. 1.5c, 2c and 4c.).<br><br>4. Detail which assets are in scope for the fund's commitment to align its investment strategy with Net Zero by 2050. |
| **Ambition and Strategy** | • TPF has clearly articulated its ESG ambition and strategy and how this aligns with its fiduciary duty to members.<br>• TPF's ESG ambition has been considered relative to its peers / and relevant national goals.<br>• TPF has plans in place to achieve its ESG ambition and strategy. | **Relevant Disclosures Considered:**<br>• The TCFD disclosure states that whilst TPF has no explicit climate strategy, it is committed to ensuring that its investment strategy is consistent with achieving the goal of global net-zero emissions by 2050 if conditions allow.<br>• The SRI Policy and ESG Policy set out TPF's approach to ESG and how it is consistent with fiduciary duty. This includes (i) integration into investment decision making and (ii) active ownership.<br>• There is a requirement for investment managers to be PRI and Stewardship Code signatories. | We recommend TPF to do the following:<br>5. Articulate the fund's commitment to ensure its investment strategy is consistent with Net Zero by 2050 and report on this to members.<br><br>6. Set out the measures the fund is taking to mitigate its ESG-related risks and capitalise on the opportunities.<br><br>7. Seek further opportunities to collaborate with other investors on ESG issues such as the Net Zero Asset Owners Alliance. TPF should confirm that they are members of CA100+ and ensure they are listed on CA100's website. |

# Observations and recommendations

| Scope Area | TPF Objectives | Observations | Recommendations |
|---|---|---|---|
| **Ambition and Strategy (continued)** | | **Observations Noted:**<br>● TPF does set out its ESG approach but does not clearly set out its ambition and there is no tangible tracking of progress against its approach.<br>● TPF's Net Zero commitment lacks detail and does not appear to be integral to TPF's ESG commitment.<br>● TPF is committed to monitoring investment manager's engagement on a bi-monthly basis.<br>● TPF are members of IIGCC but whilst they also state that they are seeking membership of CA100+, they are not listed as members on CA100's website. | 8. Seek members' views on the fund's approach to ESG.<br><br>9. Review this useful paper entitled "*Pension Fund Trustees and Fiduciary Duties – Decision-making in the context of Sustainability and the subject of Climate Change*" by the Financial Markets Law Committee. |
| **Reporting, KPIs and Data** | ● TPF has clearly defined its metrics and targets and reports these publicly.<br>● TPF has set out its methodologies and its rationale and has explained any data that it has been unable to obtain.<br>● Progress towards targets is monitored, and steps taken to achieve the targets are reported publicly. | **Relevant Disclosures Considered:**<br>● The ESG Policy includes a target for companies held within the segregated equity mandates to have agreed a Scope 1/ Scope 2 emission reduction target by December 2022.<br>● Companies held within the segregated equity mandates to have a firm commitment to achieve net zero by 2050 by December 2024.<br>● The TCFD report states that whilst TPF has no explicit climate strategy, it is committed to ensuring that its investment strategy is consistent with achieving the goal of global net-zero emissions by 2050, if conditions allow.<br><br>**Observations Noted:**<br>● TPF's Net Zero target only applies to energy companies. TPF does not set out how its investment manager's engagement activity supports this, what the consequences of inaction are and how they are tracking against it.<br>● There is no further detailed ESG metrics or targets.<br>● TPF have measured its carbon emissions, but have not set out the methodologies used to do so. There is little mention of data quality or coverage.<br>● Whilst emissions are disclosed year on year, there is no evidence of tracking progress against the Net Zero ambition. | We recommend TPF to do the following:<br>10. Adopt recommended metrics (an absolute emissions metric, emissions intensity metric and an additional climate change metric) and explain the methodologies used to calculate each metric, as set out in The Pensions Regulator guidance.<br><br>11. State the proportion of assets for which data was available and indicate whether data was verified, reported or estimated.<br><br>12. Set at least one specific and measurable ESG-related target and report on the progress in achieving that target.<br><br>13. Currently energy companies in the segregated equity mandates are required to have a Net Zero commitment. TPF should consider extending this requirement to other high emitting sectors (eg agriculture, real estate, transport, industrial sectors) and set out how the engagement of its investment managers support this.<br><br>14. Develop a transition plan for how the fund intends to achieve its climate commitment. Transition plans are likely to become mandatory for regulated asset owners as part of the Sustainability Disclosure Requirements regime and as part of the Transition Plan Taskforce's disclosure framework. |

# Observations and recommendations

| Scope Area | TPF Objectives | Observations | Recommendations |
|---|---|---|---|
| **Governance** | • TPF has effective governance structures in place to ensure appropriate oversight and monitoring of ESG strategy.<br>• TPF has the requisite skills and training to achieve its ESG strategy.<br>• TPF holds its investment managers to account on achievement of its ESG ambitions. | **Relevant Disclosures Considered:**<br>• TPF Sub-Committee has responsibility for agreeing investment objectives, strategy and structure, and for developing the Environmental, Social & Corporate Governance strategy.<br>• Climate change is addressed in the quarterly risk register which is reported to both the Sub-Committee and Board. In addition, they receive bi-annual reports on TPF's ESG activities and engagement which includes the carbon footprinting of TPF's active equity portfolios.<br>• The Executive Director of Corporate Services is the responsible officer who ensures that Sub-Committee decisions are implemented by the officers and service providers of TPF. It is the role of TPF's investment managers to incorporate analysis of ESG issues into its investment analysis.<br>• Requires investment managers to be signatories of the PRI and UK Stewardship Code.<br><br>**Observations Noted:**<br>• TPF point to the Annual Governance Statement for info on the governance structure, but there is no specific mention of ESG governance in this statement.<br>• There is little mention of whether the Board has the right skills and training in place to govern ESG. TPF conducted a 'learner needs analysis', however this did not include ESG considerations. Notwithstanding, it is noted that the 2023/24 training plan does refer to bespoke ESG training planned for 23/24.<br>• TPF state that it is the role of investment managers to incorporate ESG, but there is little evidence provided to show how they hold investment managers accountable for this, or how specific ESG metrics and targets are included within investment mandates. | We recommend TPF to do the following:<br>15. Conduct a review of TPF's governance structures to ensure they are fit-for-purpose in an ESG context.<br><br>16. Describe how the TPF Sub-Committee assesses and manages ESG-related risks and opportunities, and how often such discussions take place.<br><br>17. Conduct a review to ascertain whether the Board and Sub-Committee have the required knowledge, skills and experience to govern ESG issues effectively. TPF should provide further training where skills gaps are identified.<br><br>18. Include specific ESG metrics and targets within the fund's investment manager mandates, ensure investment managers integrate these into its activities and report on progress against them.<br><br>19. Engage with stakeholders, industry bodies and wider stakeholders to share methodologies and identify further opportunities to collaborate in pursuit of ESG issues. |

# Appendices

# Appendix A: Terms of reference

## Scope and approach

During our workshop we will explore the sub-process areas below with the management team at TPF to understand actions already taken by management and ongoing project plans:

| Sub-process | Objectives | Risks |
|---|---|---|
| **Scope and materiality** | • TPF has defined the scope of its ESG strategy, including a clear statement on its approach<br>• TPF has identified its material ESG risks and opportunities and set out measures to mitigate or manage these | • ESG is a broad topic and can be defined differently depending on sector, geography and stakeholder perspectives. A lack of clarity on the definition and/or scope of its ESG ambitions can lead to ineffective strategy and misleading communications.<br>• Lack of a clear understanding of materiality risks an inefficient use of resources and an inability to prioritise action on its most material ESG issues. |
| **Ambition and strategy** | • TPF has clearly articulated its ESG ambition and strategy and how this aligns with its fiduciary duty to members.<br>• TPF's ESG ambition has been considered relative to its peers / and relevant national goals<br>• TPF has plans in place to achieve its ESG ambition and strategy. | • Without an articulation of its strategy, TPF may be less able to manage its ESG risks and opportunities.<br>• A lack of engagement with key stakeholders may lead to an unrefined strategy and direction.<br>• An unclear plan may hinder successful implementation. |
| **Reporting, KPIs and data** | • TPF has clearly defined its metrics and targets and reports these publicly<br>• TPF has set out its methodologies and its rationale and has explained any data that it has been unable to obtain.<br>• Progress towards targets is monitored, and steps taken to achieve the targets are reported publicly. | • KPIs which are not clearly defined may lead to the ESG strategy not being driven effectively or being unable to track the progress of.<br>• Challenges with data quality and coverage impact achievement of ESG strategy and heighten greenwashing risks. |
| **Governance** | • TPF has effective governance structures in place to ensure appropriate oversight and monitoring of ESG strategy.<br>• TPF has the requisite skills and training to achieve its ESG strategy<br>• TPF holds its investment managers to account on achievement of its ESG ambitions | • A lack of appropriate governance structures may expose the fund to greater ESG risks.<br>• Without appropriate governance the fund may be less able to achieve its ESG ambitions. |

# Appendix A: Terms of reference

## Scope and approach

- Obtain and review key ESG documents that support Tayside Pension Fund's implementation of the general code of practice (the Code) in advance of a workshop scheduled for 27 February 2024
- Preparing an initial draft high level slide deck to summarise the ESG requirements and good practice (as it relates to the scope), the Tayside Pension Fund's responses and, based on these, our recommendations.
- Attending a workshop with the Tayside Pension Fund on 27 February 2024. Our support and approach during this session will be as follows:
  - Provide an overview of the Code and its likely requirements;
  - Understand actions already taken by the Tayside Pension Fund in relation to ESG;
  - Discuss any gaps which have been identified through reviewing the documents provided; and
  - Provide feedback on plans to address those gaps.

The slide deck mentioned above in (ii) will be used during this workshop. The output of the workshop will be the IA memo detailing the expectations set by TPR around ESG and how the Tayside Pension Fund plans align to these expectations. The report will also provide a high level action plan to address any gaps that were identified.

## Limitations of scope

Our support will be limited to the areas noted above and will not include the following:

- Our work will be limited to the areas noted above, namely the ESG requirements, under the Code, and will not include any other requirements of the Code or should the Code be substantially changed once finalised in these areas.
- Please note that we will not be reviewing documentary evidence for the purposes of this deliverable. If you would like us to carry out a more comprehensive gap analysis based on a review of the current governance documentation and associated policies, this will need to be agreed separately.
- Our work will not provide a comprehensive review of TPF's compliance with regulations, guidance or legal requirements.

# Appendix B: 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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# Internal audit memo 2024

# General Code Advisory Review

Tayside Pension Fund

June 2024

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# Contents



## Distribution list

For action / consideration: Tracey Russell (Senior Manager, Financial Services), Stuart Norrie (Senior Banking & Investment Officer)

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# Background and work performed

## Background

The revised General Code of Practice (the "**General Code**") covering governance requirements for private and public sector pension schemes was issued by the Pensions Regulator ("**TPR**") in January 2024, to be effective from 27 March 2024. The General Code amends multiple provisions of the Draft Single Code of Practice which had been published in 2021 ("**Draft Code**").

The overriding legal requirement for a public scheme as set out in the General Code is principally to have effective internal controls in place for scheme management and to have processes in place for these controls to be reviewed. As identified in the 'Key Observations and Considerations' section, the General Code identifies aspects of the Effective System of Governance (ESOG) which would be either a legal requirement or good practice for a public sector arrangement to follow. It also recommends that public sector schemes have an Own Risk Assessment (ORA) which is not a mandatory requirement for them (although there is a necessity to review internal controls, and aspects of an ORA may assist Tayside Pension Fund ("**TPF**") with establishing an effective annual review of internal controls). Interspersed throughout the General Code are comments that pension schemes (both in the the public and private sector) should be proportionate in adopting/adapting governance structures to meet compliance standards. As a result, whilst all of the General Code is not mandatory for TPF, it should have a clear stance on how it has assessed each component of the General Code.

The internal controls requirements principally involve identifying, monitoring and controlling risk to the Scheme, together with demonstrating effective management and administration. Whilst not an exhaustive list, the main areas of Risk to a scheme considered are set out by TPR on page 44 of the General Code as follows:

- Scheme investments, including asset-liability management (where applicable)
- Those affecting operational resilience, including where those risks belong to service providers
- Insurances, compensation funds, and other risk-mitigation techniques
- Environmental, social, and governance risks (where applicable)
- Scheme funding and the strength of the employer covenant (where applicable)
- Fraud
- Failure to comply with the law and/or scheme rules
- Poor record-keeping, poor administration, and IT and database failures
- Cyber security risks
- Governance and decision making, or existing controls are not operating to the standard required by pensions legislation
- Actual or potential conflicts of interest (the module on conflicts of interest sets out the actions that governing bodies should take in relation to these matters)

Pension funds, such as TPF, are required (where applicable) to sufficiently demonstrate and show evidence for how these main areas of Risk are addressed within its operational activities in order to meet the applicable General Code requirements.

## Summary of work performed

Internal Audit shared a questionnaire with Management on the basis of the Draft Code and TPF subsequently completed this. Internal Audit reviewed the answers provided by TPF in light of the TPR's clarifications on the new governance requirements for public service pension schemes as set out in the General Code, now published and effective 27 March 2024. Internal Audit facilitated a workshop with TPF focusing on key questionnaire responses that were most relevant as managers of a public sector scheme. A gap analysis was performed to assess current governance against new standards and good practice. The resulting feedback in this memo is to provide TPF with further guidance and considerations for industry good practice.

The 'Key Observations and Considerations' section of this memo details: which sections of the General Code were included in scope for this review; associated requirements that expressly relate to TPF as a public service pension scheme; and areas of good practice which TPF may wish consider to align itself to wider pension scheme industry good practice.

# Summary of observations

## Summary of observations

Through open discussions with the workshop attendees and the questionnaire responses, we explored certain areas of the General Code to understand TPF's approach to compliance. In conclusion, Management has been able to articulate:

- A clear understanding of how it currently considers / manages its compliance obligations;
- How their compliance obligations are embedded in TPF's Governance activities; and
- Its processes and controls in place to stay up to date and informed on any emerging and/or new regulatory changes.

As a result of the workshop and information obtained from the various supporting documents, we believe TPF has a good foundation and approach to meeting the requirements of the General Code that are applicable to it. In addition, there are components of the code that TPF are not required to comply with, but it still follows, in order to maintain better industry practice.

From the work performed, we identified the following areas where additional work should be performed in order to further align governance arrangements with the requirements of the General Code and with good practice. The sections 'Management of Activities' and 'Stewardship and Climate change' observations identified aligned to previously raised observations from other reviews recently performed by Internal Audit and the 'Own risk assessment' section observations have not previously been raised until this review:

- **Management of Activities:** The observations identified in this review align to previously raised observations by Internal Audit in the 'Business Resilience: Key person risk and succession planning' review, covering annual performance review and key person identification processes.  Our report (issued 12 June 2023) provided a summary of observations and recommendations. The observations made (of which management are working on) support alignment with expectations as per the code. We encourage management to consider these observations and recommendations in line with our report released on 12 June 2023.
- **Stewardship and Climate change:** The observations identified in this review align to previously raised observations by Internal Audit in the ESG Memo. Internal Audit facilitated a workshop (held on 27 February 2024) with TPF management and discussed the below ESG scope areas in relation to TPF, including how these apply to the fund, observations made in respect of existing documentation and strategy, as well as recommendations for potential areas of improvement: Scope and materiality; Ambition and strategy; Reporting, KPIs and data; and Governance. Our memo (issued 10 May 2024) provided a summary of workshop outputs and observations. We encourage management to consider these observations in line with our memo released on 10 May 2024.
- **Own risk assessment ("ORA"):** Although not mandated, we believe establishing an "Own risk assessment"  process to compliment current risk management procedures at TPF would be of value and good practice. In summary, this would allow management and the Pensions Board to take a step back and challenge itself in respect of:the effectiveness of its risk management framework. This would enable the fund to further answer the following key questions:
    - How have those charged with governance assessed the effectiveness of the fund's policies and procedures?
    - Do those charged with governance consider the operation of the policies and procedures to be effective and why?

Please refer to the following 'Key Observations and Considerations' section for further details.

# Key Observations and Considerations

**Requirements of the General Code: Management of activities**

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Role of the governing body<br>p.9-11</td><td>Applicable</td><td>Summary requirements: The governing body in a public pension scheme is the scheme manager (s4 Public Service Pensions Act 2013). The pensions board is set up as required by s5 of the same Act to assist the scheme manager with the matters set out in that section. The governance of a public service pension scheme will need to take into account:<br>● the differing responsibilities of the scheme manager, pension board and pension committee (where appropriate)<br>● each public service pension scheme should determine who fulfils the role of scheme manager according to their regulations and local arrangements<br>● A pension board must have an equal number of employer and member representatives<br><br>Section 5 of the Public Service Pensions Act dictates how the governing body is made up, who can be a member, and how members are appointed. For instance, a pension board must have an equal number of employer and member representatives. Local Government Pension Schemes do not need to comply with paragraph 6,page 10, as it applies to ‘trustees of trust schemes’. However, paragraph 5, page 9, states that paragraph 6 lists the ‘appropriate standards for the governing body of other schemes’ (meaning that it would be good practice to comply).<br><br>Examples of how TPF considers alignment to the code:<br>● TPF is administered by the Dundee City Council as the administering authority. TPF also has a Pension Committee (responsible for management) and a Pension Board (responsible for compliance).<br>● TPF’s internal governance structure is set out at page 4 of the Business Plan and pages 14-15 of the Annual Report. In short, the TPF has a Pension Committee (decision-makers) and Pension Board (oversight of compliance, with a 50/50 split in the board). Above those sit the Chief Executive of the Council and the Section 95 Officer.<br>● Responsibilities for the day-to-day management of the TPF are agreed and documented.</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Meetings and decision - making<br>p.20-22</td><td>Applicable</td><td>Summary requirements:<br>The Code specifies that arrangements for meetings and decision-making for councils acting as Local Government Pension Scheme authorities are set out in:<br>● Local Government Act 1972<br>● Local Government and Housing Act 1989<br>● Scotland is governed by Local Government etc. (Scotland) Act 1994<br><br>Local Government Pension Schemes should also consider the items listed at paragraph 6 on page 21. WIth regard to written meeting records, the Code specifies that governing bodies of public pension schemes must include the items listed in paragraph 5.<br><br>Examples of how TPF considers alignment to the code:<br>● All regulatory / legislative changes in quarter are reported to committee.<br>● Statutory requirements are reported quarterly.<br>● Any rescheduling is undertaken by DCC Committee services who have process for this as well as other council meetings.</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

# Key Observations and Considerations

**Requirements of the General Code: Management of activities (continued)**

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Remuneration and fee policy<br>p.23</td><td>Good practice</td><td>Summary requirements: Public service schemes ‘may wish to adopt these principles as good practice’ (paragraph 1).<br><br>Examples of how TPF considers alignment to the code: Not applicable</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Dispute resolution procedures<br><br>p.151-154</td><td>Applicable</td><td>Summary requirements: Public service pension schemes are included in the definition for ‘occupational pension schemes’ (s176 Pensions Act 1995 (as defined in s1 Pension Schemes Act 1993)). None of the exemptions in s50(8) Pensions Act 1995 (as further defined in reg 3 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008)) apply. Therefore, the pension board must put formal procedures and processes in place to investigate and decide upon pension schemes disputes (as defined in s50(3) and which are not an exempted dispute under s50(9) Pensions Act 1995). The TPR’s expectations are set out in paragraphs 7-12 (pages 152-153). Provisions in relation to ‘informing members’ are a matter of ‘good practice’ for all schemes (paragraph 12).<br><br>Examples of how TPF considers alignment to the code:<br>● Dispute resolution procedures are documented<br>● The Scheme Manager undertakes investigation with relevant section and the S95 provides review and challenge.<br>● Disputes are reported.</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Knowledge and understanding<br>p.25-31</td><td>Applicable</td><td rowspan="3">Summary requirements: Requirements for knowledge and understanding fall on pension board members. Scheme managers (or delegates) should achieve at least basic competence in the working knowledge of the items listed in 9-15 in pages 27-30 (as applicable to public service schemes, therefore excluding item 12). Working knowledge is defined as ‘sufficient knowledge of the items, so that they can be used effectively when required to do so’.<br><br>Governance of knowledge and understanding module applies ‘to the pension boards of public service pension schemes’ (paragraph 1, page 32). The pension board must demonstrate that, as a group, it possesses the ‘skills, knowledge, and experience’ to run the scheme effectively (paragraph 2). As a matter of good practice, we understand members of pension boards should work towards completing the TPR’s public service toolkit for members (paragraph 7).<br><br>Pension boards are also required to meet the expectations set out in paragraph 3 of the Scheme continuity planning module (as applicable). To enable the pensions board to ensure that the members’ knowledge and understanding is established and maintained, members of the pension scheme should demonstrate the items listed in paragraph 8 of the Code. ‘Good practice’ for scheme managers of public service pension schemes to consider carrying out continuity planning in the same way (paragraph 2).<br>Continued on next page</td></tr>
<tr><td>Governance of knowledge and understanding<br>p.32-33</td><td>Applicable</td></tr>
<tr><td>Scheme continuity planning<br>p.53-54</td><td>Good practice</td></tr>
</table>

# Key Observations and Considerations

**Requirements of the General Code: Management of activities (continued)**

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Knowledge and understanding<br>p.25-31</td><td>Applicable</td><td rowspan="3">(continued)<br><br>Examples of how TPF considers alignment to the code:<br>● The risk policy and framework is set out in the publicly available quarterly risk register (that goes to the Pension Committee) and the annual report. PwC Audit assists the TPF with its risk scoring.<br>● Annual report offers scheme-specific metrics and information on data scoring. This allows TPF to gain an understanding of where it would score (in percentages) in relation to the TPR return.<br>● Additional provisions include auditing any issues and the TPF’s regular cleaning regime which it undertakes as part of the triennial valuation process.<br>● In terms of review of skills, TPF carries out background checks and measures performance against fund indicators (e.g. investment metrics for investment advisers). Additionally, it conducts employee performance reviews and mandatory training (if any gaps are identified), as well as TPR training for all TPF officers.<br>● TPF also conducts quarterly reviews with advisers and service providers.<br>● The audit teams assess TPF’s performance and controls, and sets these out in their reports. The information is also captured in TPF’s quarterly and annual reports (as well as the quarterly, bi-annual, and annual reports that are provided to the Pension Committee and Pension Board and that these are publicly available).<br>● They also publish a governance compliance statement every year in the accounts.<br>● The TPF consults the Local Governance Association and the Scottish Public Pensions Agency (“SPPA”) to find out about things coming through the pipeline. TPF<br>● also issues a quarterly administration report which addresses what was going on in that quarter and how TPF might be affected.<br>● The Business Continuity Plan (BCP) was put in force during COVID. All performance on quarterly review and report is considered as part of the TPF BCP. TPF’s BCP focuses mainly on essential priority tasks prescribed by the Pensions Regulator</td></tr>
<tr><td>Governance of knowledge and understanding<br>p.32-33</td><td>Applicable</td></tr>
<tr><td>Scheme continuity planning<br>p.53-54</td><td>Good practice</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>The observations identified in this review align to previously raised observations by Internal Audit in the ‘Business Resilience: Key person risk and succession planning’ review, covering annual performance review and key person identification processes. Our report (issued 12 June 2023) provided a summary of observations and recommendations. The observations made (of which management are working on) support alignment with expectations as per the code. These include the following:<br>● Lack of documented Role Replacement Plans: Role replacement plans are not in place. It is clear that senior staff members know who would replace them in the event that they leave or are no longer able to work, however, required actions, guidance and protocol is not in place to aid this. In the event of needing to exercise the succession plan, an absence of formalised role replacement plans could prevent / slow down an effective transition into role.<br>● No formal review of job descriptions and person specifications: Job descriptions and person specifications are not periodically reviewed and may not reflect the current roles and responsibilities at TPF. If job descriptions and person specifications are out of date, TPF is at risk of recruiting an individual who does not have the appropriate qualifications or skill levels to fulfil the actual role expected of them.<br><br>We encourage management to consider these observations and recommendations in line with our report released on 12 June 2023.</td></tr>
</table>

# Key Observations and Considerations

**Requirements of the General Code: Organizational Structure**

| Module named | Applicability | Summary requirements and examples of how TPF considers alignment to the code |
|---|---|---|
| **Appointment and role of the chair** p.18-19 | Good practice | **Summary requirements:** Public service schemes 'may wish to adopt these principles as good practice' (paragraph 7, p.69).<br><br>**Examples of how TPF considers alignment to the code:** Not applicable |
| **Internal Audit observations (where relevant)** | | **None** |

| Module named | Applicability | Summary requirements and examples of how TPF considers alignment to the code |
|---|---|---|
| **Conflicts of interest p. 55-60** | Partially applicable | **Summary requirements:** Scheme managers need to consider 'conflicts of interest' as part of their assessment of internal controls under s249B of the Pensions Act 2004 (paragraph 4). Specifically, scheme managers should take into consideration conflicts of interest when identifying and evaluating risks as conflicts may arise when a member of the governing body:<br>a. is obliged to act in the best interests of the members; and<br>b. has or may have a separate personal interest or other fiduciary duty/duty.<br><br>The scheme managers should adopt control procedures to manage conflicts and mitigate the risks of tainted decision making (paragraph 10).<br><br>The TPR 'expects' that scheme managers will comply with paragraphs 6-8 on page 56 when identifying and recording conflicts of interest.<br><br>Scheme managers must also meet the requirements under s5 of the Public Service Pensions Act 2013, and these are also detailed in paragraphs 22 to 24 of page 59.<br><br>All other paragraphs in the module do not apply to public sector pension schemes, but it 'is good practice for them to adopt those measures' (paragraph 3(b), page 55).<br><br>**Examples of how TPF considers alignment to the code:**<br>● Members need to agree to be bound by the Dundee City Council's Code of Conduct and to declare interests at the start of any meeting. Additionally, TPF administrators are required to carry out the TPR training on interests.<br>● Individuals are contractually required to declare any conflicts of interests before meetings, or to the Committee. TPF follows the TPR's procedure for dealing with conflicts of interest to resolve the conflict. TPF also has a public register of interests listing all elected members. |
| **Internal Audit observations (where relevant)** | | **None** |

# Key Observations and Considerations

**Requirements of the General Code: Organizational Structure (continued)**

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Managing advisers and service providers<br>p.38-41</td><td>Good practice</td><td rowspan="2">Summary requirements: This module only applies to governing bodies of schemes with 100+ members and which are required to maintain an ESOG (paragraphs 1 and 2). Public service schemes ‘may wish to adopt these principles as good practice’ (paragraph 1).<br><br>Examples of how TPF considers alignment to the code:<br>● TPF uses the Norfolk Pension TPF to provide the procurement framework document. It then assesses the skillsets of advisers and service providers against the criteria in the framework.<br>● Northern Trust is TPF’s global Custodian. Quarterly service review and document any changes. This is in addition to a regular review of contracts. They outsource the monitoring of expiring contracts to the procurement team.<br>● TPF asks the relevant service providers for clarifications on advice if this is unclear.<br>● Additionally, TPF is divided into two specialist groups: (1) administration and (2) technical.<br>● TPF also meet every quarter with 11 Scottish funds at the SLGPS Investment & Governance Group where:<br>○ they have a plenary session for LG associations;<br>○ they have a Scottish Pensions Liaison Group (Pension Administration) where all funds assess the information from the SPPA.</td></tr>
<tr><td>Risk management function<br>p.65-66</td><td>Good practice</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

# Key Observations and Considerations

**Requirements of the General Code: Investment matters**

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Investment governance<br>p.73-75</td><td>Good practice</td><td rowspan="3">Summary requirements: ‘Scheme managers of Local Government Pension Schemes do not have the same obligations as occupational pension schemes in pensions legislation, but it is good practice for them to approach investment governance in the same way’. However, as part of the ‘Knowledge and understanding’ requirements, they must understand the investment powers and duties they have under the scheme trust deed, rules, and legislation (paragraph 4, page 73).<br><br>Examples of how TPF considers alignment to the code:<br>● TPF has a defined framework in place for setting the investment strategy, objectives and asset allocations.<br>● Input from external advisors and wider stakeholders is considered.<br>● TPF has established performance metrics for the investment strategy, including reporting on these.<br>● There is timely reporting in place which allows the monitoring of performance against the investment strategy objectives (and investment manager performance).<br>● There is reporting in place to monitor overall scheme performance, risks, costs and compliance with investment guidelines.<br>● There is a formal governance process in place for setting the investment strategy which includes the review of data / inputs which inform the strategy, and the translation of this into both legal and internal documentation.<br>● Investment decision making roles and responsibilities are defined.<br>● Scenario planning and stress tests are carried out by the actuary as part of the triennial valuation.</td></tr>
<tr><td>Investment decision-making<br>p.76-78</td><td>Good practice</td></tr>
<tr><td>Investment monitoring<br>p.79-80</td><td>Good practice</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Statement of investment principles<br>p.87-91</td><td>Good practice</td><td>Summary requirements: Local Government Pension Schemes are exempt from the requirement to produce a Statement of Investment Principles by virtue of reg 6(1)(b)(ii) of The Occupational Pension Schemes (Investment) Regulations 2005 which disapplies s35 of the Pensions Act 1995.<br><br>Examples of how TPF considers alignment to the code: Not applicable</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>None</td></tr>
</table>

# Key Observations and Considerations

**Requirements of the General Code: Investment matters (continued)**

<table>
<tr><th>Module name</th><th>Applicability</th><th>Summary requirements and examples of how TPF considers alignment to the code</th></tr>
<tr><td>Stewardship<br>p.81-83</td><td>Good practice</td><td rowspan="2">Summary requirements: As Local Government Pension Schemes are not required to produce a Statement of Investment Principles (see below), they do not have to include their policies in relation to financially and non-financially material ESG considerations, and they do not have to produce an annual implementation statement. However, in relation to ESG and climate change:<br>● Paragraph 12,page 83, recommends ‘that governing bodies with investment responsibilities follow the expectations set out in paragraph 13, even if they are not legally required’.<br>● Paragraph 9, page 85, states that ‘other governing bodies may wish to consider these as good practice’ (paragraph 8).<br>● Paragraph 7, page, clarifies that governing bodies that are required to establish internal controls should, as part of their risk assessment, ‘assess the risks and opportunities associated with climate change.<br><br>Examples of how TPF considers alignment to the code:<br>● The TCFD disclosure states that whilst TPF has no explicit climate strategy, it is committed to ensuring that its investment strategy is consistent with achieving the goal of global net-zero emissions by 2050 if conditions allow.<br>● The SRI Policy and ESG Policy set out TPF’s approach to ESG and how it is consistent with fiduciary duty. This includes (i) integration into investment decision making and (ii) active ownership.<br>● There is a requirement for investment managers to be PRI and Stewardship Code signatories.<br>● Companies held within the segregated equity mandates to have a firm commitment to achieve net zero by 2050 by December 2024.<br>● The TCFD report states that whilst TPF has no explicit climate strategy, it is committed to ensuring that its investment strategy is consistent with achieving the goal of global net-zero emissions by 2050, if conditions allow.</td></tr>
<tr><td>Climate change<br>p.84-86</td><td>Good practice</td></tr>
<tr><td colspan="2">Internal Audit observations (where relevant)</td><td>The observations identified in this review align to previously raised observations by Internal Audit in the ESG Memo. Internal Audit facilitated a workshop (held on 27 February 2024) with TPF management and discussed the below ESG scope areas in relation to TPF, including how these apply to the fund, observations made in respect of existing documentation and strategy, as well as recommendations for potential areas of improvement: Scope and materiality; Ambition and strategy; Reporting, KPIs and data; and Governance.<br><br>Our memo (issued 10 May 2024) provided a summary of workshop outputs and observations. These observations were made to support alignment with expectations as per the code. These included the following:<br>● ESG Scope and Materiality: TPF has defined the scope of its ESG strategy, including a clear statement on its approach. However, in respect of identified material ESG risks, we believe additional analysis is required. For example, supporting documentation provides limited details regarding actions taken to mitigate climate-related risks. There is also a lack of clarity on what is in scope for the net zero commitment.<br>● Ambition and Strategy: TPF’s TCFD disclosure states that whilst TPF has no explicit climate strategy, it is committed to ensuring that the investment strategy is consistent with achieving the goal of global net-zero emissions by 2050 if conditions allow. The SRI Policy and ESG Policy set out TPF’s approach to ESG and how it is consistent with fiduciary duty. Notwithstanding, TPF’s ESG strategy does not clearly set out its ambition and there is no tangible tracking of progress against its approach. TPF’s plans in place to achieve its Net Zero commitment lacks detail and does not appear to be integral to TPF’s ESG commitment.<br>● Reporting, KPIs and Data: The ESG Policy includes high level targets for companies held within the segregated equity mandates but there is no further detailed ESG metrics or targets. TPF’s Net Zero target is limited in that it only applies to energy companies and TPF does not set out how it monitors investment manager’s against targets set. There is also little mention of data quality or coverage. The progress towards targets is measured for its carbon emissions, but have not set out the methodologies used to do so. Emissions are disclosed year on year but there is no evidence of tracking progress against the Net Zero ambition.<br>Continued on next page</td></tr>
</table>

# Key Observations and Considerations

### Requirements of the General Code: Investment matters (continued)

| Module name | Applicability | Summary requirements and examples of how TPF considers alignment to the code |
|---|---|---|
| **Stewardship** p.81-83 | Good practice | **Internal Audit observations (continued)**<br>● **Governance:** TPF should have in place effective governance structures in place to ensure appropriate oversight and monitoring of ESG strategy. TPF point to the Annual Governance Statement for information regarding the governance structure, but there is no specific mention of ESG governance in this statement. With regards to holding its investment managers to account on achievement of its ESG ambitions, Management were able to articulate its requirements. There is however limited documented evidence of how this is performed in practice, or how specific ESG metrics and targets are included within investment mandates.<br><br>We encourage management to consider these observations in line with our memo released on 10 May 2024. |
| **Climate change** p.84-86 | Good practice | |

### Communications and disclosure

| Module name | Applicability | Summary requirements and examples of how TPF considers alignment to the code |
|---|---|---|
| **General principles for member communications**<br><br>p.130, 137-138 | Applicable | **Summary requirements:** Local Government Pension Schemes fall within the definition of Schedule 1 of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. Therefore, the regulations apply to them by virtue of reg 4(1). When preparing communications to members, the scheme manager should consider all items outlined in paragraph 3 of page 130. Additionally, scheme managers of public service pension schemes must provide all active members with an annual benefit information statement. They must also provide annual benefit information statements to deferred members and pension credit members of the scheme, where this is required by scheme regulations. Local Government Pension Schemes are DB Schemes.<br><br>Therefore, for active members, scheme managers must issue the information set out in paragraph 4 of page 137. For active, deferred, or pension credit members, scheme managers must issue the information in paragraph 5 of page 137 and any further information required under reg 16(2) of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.<br><br>Where applicable in relation to Additional Voluntary Contributions, scheme managers must also issue the information in accordance with paragraph 6 on page 138, and reg 17. There are also requirements for scheme managers of public service pension schemes to publish certain information about the pension board (paragraphs 1-7 on page 149).<br><br>**Examples of how TPF considers alignment to the code:**<br>● Communications are provided by letter, leaflet and via website and Member Self Service Portals. Where requested TPF provide large font documents and can a sign language interpreter.<br>● All communications are issued to senior management for review and amendment prior to issue.<br>● Communications are reviewed at such times as amendments are required, i.e. where legislation is amended or any such details as are shown in the communication.<br>● Annual Benefit Statements are issued by 31st August annually. For those active members who have signed up for Member Self Service, they have the ability to review their record and “model” their retirement benefits. |
| **Internal Audit observations (where relevant)** | | **None** |

# Key Observations and Considerations

**Own risk assessment**

| Module name | Applicability | Summary requirements and examples of how TPF considers alignment to the code |
|---|---|---|
| **Own risk assessment**<br>p.61-64 | Good practice | **Summary requirements:** No requirement for public service pension schemes to establish and operate an own risk assessment (as there is no requirement for public service pension schemes to have an ESOG).<br><br>**Examples of how TPF considers alignment to the code:**<br>● Defined processes are used to support the identification, assessment and treatment of risk, including risk and control documentation. Processes include:<br>○ Risk identification and assessment;<br>○ Risk horizon scanning;<br>○ Risk events; and<br>○ Risk reporting<br><br>NOTE: The 2024 internal audit plan includes a review of the TPF risk management framework and associated processes and controls. |
| **Internal Audit observations (where relevant)** | | Although not mandated, we believe establishing an “Own risk assessment” process to compliment current risk management procedures at TPF would be of value and good practice. In summary, this would allow management and the Pensions Board to take a step back and challenge itself in respect of:<br>● Is the Scheme’s Risk Management policy followed?<br>● What management information is used to report on risk?<br>● Does management and committee reporting reflect a mix of metrics to measure risks, risk limit tolerances and trend analysis.<br>● Does MI measure both outward-looking measures of potential harm and inward-looking measures relating to controls.<br>● Do reports provide both quantitative and qualitative information along with supporting commentary to enable challenge.<br>● Who receives and uses this information to assess risk and provide challenge?<br>● Based on this oversight, how are actions recorded, resolved and reported on?<br>● Internal controls: What independent assurance has been received and how was this used to assess controls in place that manage this risk? Based on this oversight, how are actions recorded, resolved and reported on?<br>● Internal controls: What management assessment activities / checks / tasks have been performed to assess the design and operating effectiveness of controls in pace that mitigate the risk? Based on this oversight, how are actions recorded, resolved and reported on?<br>● How have risk events/reported breaches been treated ( recorded, resolved and reported on)?<br><br>This would enable the fund to answer the following key questions:<br>1) How have those charged with governance assessed the effectiveness of the fund’s policies and procedures?<br>2) Do those charged with governance consider the operation of the policies and procedures to be effective and why? |

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# Appendices

# Appendix A: Terms of reference*

This review is being undertaken as part of the 2022/23 internal audit plan approved by the Audit Committee.

## Background and audit objectives

In March 2021, the Pensions Regulator ("TPR") published a draft combined code of practice (the "Draft Code"). The Draft Code is intended to consolidate a number of existing codes of practice and introduce new requirements on pension scheme trustees. The consultation period closed on 26 May 2021. The most notable of these requirements are for trustees to adopt effective systems of governance ("ESOGs"), carry out regular reviews of these ESOGs and separately carry out trustee own risk assessments ("ORAs").

A number of industry bodies provided detailed feedback and there have been challenges to some of the elements of the Code, with TPR publishing an interim response in August 2021. The now-termed 'General Code' is awaiting DWP sign-off, and is expected to be laid before parliament in Spring 2023. TPR has noted the final code has been updated for some areas where legislation has moved on since the original consultation. Even though the detail of the Code may change, it is unlikely that the structure will change and there are significant steps that can be taken now in order to prepare.

Taking this into account, it was agreed that as part of the 2022/23 Internal Audit plan a review, via a workshop, would be performed with the objective of understanding and assessing TPF's approach to preparing for the code of practice. We will also share insights and good practices that can help management bring improvements.

*At the time of writing this terms of reference, the General Code had not yet been published. Due to the workshop occurring after the release of the General Code, the work performed and output of the memo has applied the information available in the General Code instead of the Draft code.

# Appendix A: Terms of reference*

During our workshop we will explore the sub-process areas below with the management team at TPF to understand progress (regarding the new consolidated code of practice readiness) made to date and areas for further action:

| Process | Sub-process | Objectives |
|---|---|---|
| **Effective system of governance (ESOG)** | Management of activities: | • Role of the governing body (managers and/or pension boards of public service schemes regulated by TPR)<br>• Meetings and decision making<br>• Working knowledge of pensions<br>• Governance of knowledge and understanding<br>• Building and maintaining knowledge<br>• Dispute resolution procedures<br>• Continuity planning |
| | Organisational structure | • Role of the chair<br>• Conflicts of interest<br>• Managing advisers and service providers |
| | Investment matters | • Investment governance<br>• Investment decision making<br>• Investment monitoring<br>• Stewardship<br>• Climate change |
| | Communications and disclosure | • General principles for member communications |
| **Own Risk Assessment (ORA)** | Governance | (1) Documentation<br>(2) Policies for the governing body<br>(3) Risk management policies<br>(4) Investment<br>(5) Additional investment matters for DB schemes<br>(6) Administration<br>(7) Payment of benefits, where applicable |

*At the time of writing this terms of reference, the General Code had not yet been published. Due to the workshop occurring after the release of the General Code, the work performed and output of the memo has applied the information available in the General Code instead of the Draft code.

# Appendix A: Terms of reference*

## Scope and approach

i. Preparing a questionnaire to cover the requirements under the Draft Code ESOG and ORA to share with the Tayside Pension Fund in advance of a workshop.

ii. Reviewing the Tayside Pension Fund's responses to the above questionnaire.

iii. Preparing an initial draft high level slide deck to summarise the ESOG and ORA requirements, the Tayside Pension Fund's responses and, based on these, our recommendations.

iv. Attending a workshop with the Tayside Pension Fund. Our support and approach during this session will be as follows:

- Provide an overview of the Draft Code's ESOG and ORA and their likely requirements;
- Understand actions already taken by the Tayside Pension Fund in relation to their ESOG and ORA;
- Discuss any gaps which have been identified as part of the Tayside Pension Fund's responses to our initial questionnaire; and
- Provide feedback on plans to address those gaps.

The slide deck mentioned above in (iii) will be used during this workshop. The output of the workshop will be the IA report detailing the likely expectations set by TPR around ESOG and ORA requirements and how the Tayside Pension Fund plans align to these expectations. The report will also provide a high level action plan to address any gaps that were identified.

## Limitations of scope

Our support will be limited to the areas noted above and will not include the following:

- Our work will be limited to the areas noted above, namely the ESOG and ORA requirements, under the Draft Code, and will not include any other requirements of the Draft Code or should the Draft Code be substantially changed once finalised in these areas.
- Please note that we will not be reviewing documentary evidence for the purposes of this deliverable. If you would like us to carry out a more comprehensive gap analysis based on a review of the current governance documentation and associated policies, this will need to be agreed separately.

*At the time of writing this terms of reference, the General Code had not yet been published. Due to the workshop occurring after the release of the General Code, the work performed and output of the memo has applied the information available in the General Code instead of the Draft code.

# Appendix B: 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 …6………..**

**REPORT TO:** **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 26 JUNE 2024**

**REPORT ON:** **TAYSIDE PENSION FUND INTERNAL ANNUAL AUDIT REPORT 2023/24**

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

**REPORT NO:** **185-2024**

## 1 PURPOSE OF REPORT

To submit to the Sub-Committee the Annual Audit Report for 2023/24 prepared by the Fund's Internal Auditor, PricewaterhouseCoopers (PwC).

## 2 RECOMMENDATIONS

The Sub-Committee is asked to note the content of the Annual Report as well as the content of the appended reports on specific audit exercises undertaken, and to approve the management response.

## 3 FINANCIAL IMPLICATIONS

None.

## 4 SUMMARY OF REPORT

The report contained in Appendix A outlines the internal audit work undertaken in the year to 31st March 2024 in conformance with Public Sector Internal Audit Standards. In-keeping with these requirements, PwC have provided an opinion, based on the following:

- Findings of audit work undertaken
- Adequacy and effectiveness of governance, risk management and control

Tayside Pension Fund has received a Satisfactory Opinion of the Fund's governance, risk management and control, based upon the two internal audit reviews undertaken in the year, and two advisory reviews performed. There were 2 medium and 5 low risk rated findings across the internal audit reviews completed in the period. PwC advise that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

The findings of the individual audits carried out over the year and the respective recommendations have previously been reported to the Sub-Committee and the implementation of the agreed management actions is being monitored. Progress is 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 they agree with the contents.

## 7 BACKGROUND PAPERS

None

**ROBERT EMMOTT**
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES** **14 JUNE 2024**

# Internal audit annual report

# 2023/24

**Tayside Pension Fund**

June 2024

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# Contents



## Distribution list

For action: Pension Sub-Committee & Pension Board

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

# Executive summary

## Introduction

This report outlines the internal audit work we have carried out for the year ended 31st March 2024.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Pension Sub-Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix A. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Pension Sub-Committee agreed to a level of internal audit input of 75.5 days. Whilst this report is a key element of the framework designed to inform the Annual Governance Statement there are also a number of other important sources to which the Pension Sub-Committee should look to gain assurance. This report does not override the Pension Sub-Committee's responsibility for forming their own view on governance, risk management and control.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards.

## Head of internal audit opinion

Tayside Pension Fund (TPF) has processes that are delivered by Dundee City Council and we expect that these areas are considered as part of the wider Dundee City Council Internal Audit programme. In view of the limited number of reviews that we have performed in the year, our opinion is based upon and limited to the four internal audit reviews performed by PwC solely for the TPF. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

## Opinion

**Our opinion is as follows:**

### Satisfactory

Governance, risk management and control in relation to the two internal audit reviews and two advisory reviews performed is generally satisfactory. A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual reviews.

Some improvements are required in those areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Please see our Summary of Findings section.

# Executive summary

An explanation of the types of opinion that may be given can be found in Appendix B.

## Basis of our opinion

Our opinion is based on:

- Two audits and two advisory based reviews undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Our overall understanding of the Tayside Pension Fund and the issues it faces.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

## Commentary

The key factors that contributed to our opinion are summarised as follows:

- For the two audits undertaken during the year, none pertaining to the governance, risk management and control have received an overall rating of high or critical risk.
- We have produced one ‘Satisfactory with exceptions’ report for the Pensions Administration review and one ‘Satisfactory’ rated report for the Liquidity review. This resulted in 2 medium and 5 low risk rated findings across these internal audit reviews completed in the period. The coverage period for these reviews was January 2023 to December 2023.
- We have completed two advisory based reviews resulting in audit memorandums containing our observations made with regards to:
    - TPF’s approach to the General Code. There are areas to progress to align with best practice, however we did not observe any significant concerns during the review.
    - TPF’s approach to Environmental, Social and Corporate Governance (“ESG”) policy. Some improvement is required in order to align with industry requirements and good practice, however we did not observe any significant concerns during the review.

## Acknowledgement

We would like to take this opportunity to thank the Senior Manager, Financial Services and all the staff at Dundee City Council, for their cooperation and assistance provided during the period.

# Summary of findings

Our annual internal audit report is timed to inform the organisations Annual Governance Statement. A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

| Description |
| --- |
| **Overview**<br><br>We completed two internal audit reviews and two advisory based reviews. This resulted in the identification of 2 medium and 5 low risk rated findings to improve weaknesses in the design of controls and operating effectiveness. |
| **Internal control issues and other weaknesses**<br><br>Weaknesses were identified within the organisation's pensions administration and liquidity processes resulting in 2 medium risk and 5 low risk across the 2 internal audits reviews completed in the 2023/24 year. Key findings (medium rated) raised in the year include the following:<br><br>Pensions Administration Review<br><br>1. **No QA process for key administration tasks**: 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.<br><br>2. **Lack of system audit trail for approvals**: 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. 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. |
| **Follow up**<br><br>During the year we have undertaken follow up work on previously agreed actions. Out of 22 actions being monitored, from the prior years, 8 actions have been implemented and 7 actions are overdue. From the current year reviews, 8 actions has been agreed upon, 1 action has been implemented and the remaining 7 are not yet due. |

# Internal audit work conducted

## Introduction

The table below sets out the results of our internal audit work along with a comparison of planned and actual internal audit activity.

## Results of individual assignments

| Review | Report classification | Number of findings: Critical | High | Medium | Low |
|---|---|---|---|---|---|
| Pensions Administration | Satisfactory with Exceptions | - | - | 2 | 2 |
| Liquidity | Satisfactory | - | - | - | 3 |
| General Code | N/A - Memo | - | - | - | - |
| ESG | N/A - Memo | - | - | - | - |
| | **Total number of findings raised** | **-** | **-** | **2** | **5** |

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## Comparison of planned and actual activity

| Audit unit | Budgeted days | Actual days |
|---|---|---|
| Pensions Administration | 24 | 24 |
| Liquidity | 17 | 17 |
| General Code | 15 | 15 |
| ESG | 13 | 13 |
| **Sub total** | 69 | 69 |
| Annual Audit Plan and Reporting, Contract Management, Attendance at Pension Sub-Committee, Contingency | 6.5 | 6.5 |
| **Total days** | 75.5 | 75.5 |

# Follow up work conducted

## Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented. In accordance with our internal audit plan, we followed up and validated a sample of the recommendations made in prior years to ascertain whether action had been taken. The table below summarises the follow up work performed.

## Results of follow up work

| Audit unit | Report classification | Number of agreed actions | Implemented | Overdue | Not yet due |
|---|---|---|---|---|---|
| 21/22: Oversight & Third Party Risk Management | Medium | 4 | 4 | - | - |
| 21/22: Risk Management & Regulatory Risk Compliance | Medium | 3 | 2 | 1 | - |
| 22/23: Contributions Monitoring | Satisfactory with Exceptions | 4 | 1 | 3 | - |
| 22/23: Business Resilience | Satisfactory with Exceptions | 3 | - | 3 | - |
| 23/24: Pensions Administration | Satisfactory with Exceptions | 5 | 1 | - | 4 |
| 23/24: Liquidity | Satisfactory | 3 | - | - | 3 |
| | **Total:** | **22** | **8** | **7** | **7** |

## Summary

Out of 22 actions being monitored, 8 actions have been implemented, 7 are outstanding and overdue, and 7 are not yet due. The Pension Administration and Liquidity reports were issued as final in March 2024, hence all of the agreed actions are not yet due.

The overdue action from the 21/22 Risk Management & Regulatory Compliance review is in relation to risk training, which will be incorporated into the 2024/25 TPF training plan. The overdue actions from the 22/23 Business Resilience review will be addressed by TPF in the 2024/25 year as part of a wider project being implemented. The overdue actions from the 22/23 Contributions Monitoring review are expected to be completed byb the end of June 2024.

# Appendices

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# Appendix A: Limitations and responsibilities

## Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

## Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

## 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 relating to Tayside Pension Fund for the year ended 31st March 2024. Historic evaluation of effectiveness may not be 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; or
- The degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within the Executive Summary section of this report.

## 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 shall 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, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

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# Appendix B: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

| Type of opinion | Indication of when this type of opinion may be given |
|---|---|
| **Satisfactory** | A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and<br>• None of the individual assignment reports have an overall report classification of either high or critical risk. |
| **Generally satisfactory with some improvements required** | • Medium risk rated weaknesses identified in individual assignments that are **not significant in aggregate** to the system of internal control; and/or<br>• High risk rated weaknesses identified in individual assignments that are **isolated** to specific systems or processes; and<br>• None of the individual assignment reports have an overall classification of critical risk. |
| **Major improvement required** | • Medium risk rated weaknesses identified in individual assignments that are **significant in aggregate but discrete parts** of the system of internal control remain unaffected; and/or<br>• High risk rated weaknesses identified in individual assignments that are **significant in aggregate but discrete parts** of the system of internal control remain unaffected; and/or<br>• Critical risk rated weaknesses identified in individual assignments that are **not pervasive** to the system of internal control; and<br>• A **minority** of the individual assignment reports may have an overall report classification of either high or critical risk. |
| **Unsatisfactory** | • High risk rated weaknesses identified in individual assignments that **in aggregate are pervasive** to the system of internal control; and/or<br>• Critical risk rated weaknesses identified in individual assignments that are **pervasive** to the system of internal control; and/or<br>• **More than a minority** of the individual assignment reports have an overall report classification of either high or critical risk. |
| **Disclaimer opinion** | • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:<br>– Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or<br>– We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control. |

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# Appendix C: Basis of our classifications

## Report classifications

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

| Individual Finding Rating | Points Allocated |
|---|---|
| **Critical** | 40 points per finding |
| **High** | 10 points per finding |
| **Medium** | 3 points per finding |
| **Low** | 1 point per finding |

| Report Classification | Points Range |
|---|---|
| **Unsatisfactory** | 40 points and over |
| **Needs Improvement** | 16–39 points |
| **Satisfactory with Exceptions** | 7–15 points |
| **Satisfactory** | 6 points or less |

# Appendix C: Basis of our classifications

## Individual finding ratings

| Finding rating | Assessment rationale |
|---|---|
| **Critical** | A finding that could have a:<br>• **Critical** impact on operational performance; or<br>• **Critical** monetary or financial statement impact; or<br>• **Critical** breach in laws and regulations that could result in material fines or consequences **;** or<br>• **Critical** impact on the reputation or brand of the organisation which could threaten its future viability. |
| **High** | A finding that could have a:<br>• **Significant** impact on operational performance; or<br>• **Significant** monetary or financial statement impact ; or<br>• **Significant** breach in laws and regulations resulting in significant fines and consequences; or<br>• **Significant** impact on the reputation or brand of the organisation. |
| **Medium** | A finding that could have a:<br>• **Moderate** impact on operational performance; or<br>• **Moderate** monetary or financial statement impact; or<br>• **Moderate** breach in laws and regulations resulting in fines and consequences; or<br>• **Moderate** impact on the reputation or brand of the organisation. |
| **Low** | A finding that could have a:<br>• **Minor** impact on the organisation's operational performance; or<br>• **Minor** monetary or financial statement impact; or<br>• **Minor** breach in laws and regulations with limited consequences; or<br>• **Minor** 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. |

# Appendix D : Conformance with the code of ethics and internal audit standards

## Code of Ethics and Internal Audit Standards

We have a firm wide internal audit methodology which is aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. This is designed to standardise the approach to conducting internal audit engagements. All our work is documented in our dedicated internal audit software which sets out the procedures to be performed to achieve compliance with the standards. The inbuilt workflow functionality ensures that work is adequately documented and reviewed before results are shared. This is further supported by relevant training, supervision and review of the work performed by those with adequate experience and skill in the relevant areas. We also review a random selection of engagements to ensure they comply with the firm's requirements and have appropriately followed the internal audit methodology.

We can confirm that our work has been performed in accordance with this methodology.

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# Appendix E: 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.

# Thank you

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**ITEM No …7………..**

**REPORT TO:** **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 24 JUNE 2024**

**REPORT ON:** **PENSION ADMINISTRATION PERFORMANCE – QUARTERLY UPDATE TO 31ST MARCH 2024**

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

**REPORT NO:** **186-2024**

## 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 | 734 | 166 | 342% | 791 | 2104 | -62% | 60 | 21 | 89 | -76% | | 92.9% |
| Estimate | 261 | 154 | 69% | 184 | 133 | 38% | 60 | 78 | 76 | 3% | 2 | 28% |
| Options | 512 | 384 | 33% | 415 | 438 | -5% | 60 | 66 | 67 | -1% | 2 | 36% |
| Actual | 299 | 275 | 9% | 253 | 287 | -12% | 60 | 17 | 20 | -15% | | 98% |
| TV In | 47 | 59 | -20% | 49 | 39 | 26% | 60 | 57 | 35 | 63% | | 50% |
| TV Out | 209 | 138 | 51% | 142 | 178 | -20% | 90 | 47 | 52 | -10% | | 88% |
| Deferred | 311 | 377 | -18% | 326 | 381 | -14% | 60 | 28 | 36 | -22% | | 95% |
| Death | 213 | 214 | -0.5% | 225 | 184 | 22% | 60 | 16 | 15 | 7% | | 100% |
| Death Grant | 39 | 41 | -5% | 38 | 33 | 15% | 60 | 45 | 98 | -54% | 1 | 92% |
| Dependant | 74 | 69 | 7% | 78 | 53 | 47% | 60 | 27 | 28 | -4% | | 100% |
| Divorce | 15 | 16 | -6% | 21 | 6 | 250% | 90 | 94 | 52 | 81% | 3 | 31.6% |
| **Total** | **2714** | **1893** | **43%** | **2522** | **3836** | **-34%** | | | | | **8** | |

The following provides further detail on statutory task data:

**Overall Caseload:**
Case volume received increased in comparison to the last quarter by 43%. There were 8 cases out-with statute at the end of the period. Whilst all efforts were made to bring all cases into statute, the team continue to deal with continuingly high call and email volumes, and also the additional complexities as a result of McCloud. Processing volumes were also impacted as a result of key team members being involved in training of new postholders. Actions have been taken to improve throughput.

**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 was a 33% increase in pensions options cases received in the period along with a 9% increase for pension being brought into payment.
  - Case processing volumes were lower than previous quarter, however total processing days for the payment of retirement benefits completed reduced by 15%.

- **Processing of Death Benefits, Payments of Death Grants, and Dependant Pensions**

  - Death and Death Grant case completed volumes and processing times improved in the quarter.
  - Although reported death cases remained similar in the quarter, there was an increase in dependent cases received of 7%.

**Other Statutory Tasks**:

- **New Member Processing:** A significant number of new starts continue to be received (due to employers providing legacy details in bulk on IConnect). Work also continued in the quarter on a new workflow to further automate this process.
- **Estimates:** Cases received during the quarter increased by 69%. These are largely final estimates, or more complex estimates not accommodated by the self-service portal. Actions have been taken to address the increasing volumes.
- **Deferred Member Processing:** There was a decrease of deferred cases by 18% from the last quarter.
- **Outbound Benefit Transfers**: Case volumes received increase by 50%. The team are continuing with training in this area and cases completed are also affected by the current guidance required in respect of the McCloud remedy.
- **Inbound Benefit Transfers**: case volumes decreased from the previous period by 20% and again certain cases are on hold until the required McCloud remedy guidance is received.
- **Divorces:** decreased by 6%, but cases completed increase by 250% in this quarter. Divorces are also affected by the current guidance required in respect of the McCloud remedy.

**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 | 1665 | 891 | 87% | 1427 | 889 | 61% |
| Certificates | 91 | 54 | 69% | 94 | 137 | -31% |
| Other admin tasks (e.g. age 55 reviews) | 754 | 679 | 11% | 739 | 925 | -20% |
| Other pensions processes (e.g. refunds) | 1208 | 2534 | -52% | 1045 | 1475 | -29% |

### 5.2 Employer Contributions

For the period January to March covering the payroll periods of December to February there were no late s and only one late submission of employer contribution breakdown. In March there were 2 late payments, one of which was settled within 3 days of deadline. The remaining employer was one who had made prior arrangement to settle employer contributions by the end of the financial year. The fund engaged with the employer, and the employer made 2 settlements in the month, however they remain in deficit of the March contributions. The fund has been in further dialogue with the employer to request settlement of the remaining outstanding balance for 23/24 at their earliest convenience. Whilst this does not present any material risk, this has been logged and Executive Director of Corporate Services has been informed. Further update will be provided in future reports as required.

**Employers and Member Online Portals:**

### 5.3 MSS Update

On 31/03/2024 there were 15,526 members registered for the Member Self Service Portal. This is an increase of 464 since the end of the previous quarter, and in keeping with the previous quarters increase of registered users.

### 5.4 I-Connect Update

34 employers are now currently using i-connect on a monthly basis. Although all employers had been previously advised of deadline for monthly submissions, uptake has been slower than desired. The team have engaged with those employers yet to onboard to assist them, and plans are now in place for full operational implementation by end of May 2024.

### 5.5 Call Centre

Inbound calls increased in this quarter (there had been small decline in previous quarter). Calls answered totalled 2865 over the period, a total of 562 hours were spent on incoming calls, this continues to be a major resource for the team.

### 5.6 Prudential AVC

On 19th March Prudential held a Forum via Microsoft Teams. The areas that they covered in the session included:

- Service performance – They informed that this key and that they are committed to focusing on improving performance.
- Annual Scheme Accounts – They have been unable in recent years to provide scheme accounts within reporting deadline. They inform that they are in a stronger position than in previous years, and intend issuing a snapshot to Funds in May 2024 with the final statements being published in July.
- Pensions Dashboard – Overview of project timeline was provided. Confirmation that Prudential are working with the LGA to design the approach for connecting AVC information to the Dashboard. Their preferred approach being for them to provide AVC data to induvial schemes for inclusion in their connection upload.
- Scheme support materials – Member newsletters are to be made available. The administration form has also been updated to aid in improving turnaround of information requests.
- Data formatting and contributions – The challenges in dealing with the large number of individual employers and data formatting was highlighted as an issue. They have requested assistance from funds to provide specific employer contacts to enable them to communicate directly with employers.

**5.7 Compliance**

**National Fraud Initiative:** The following provides an update of the status of the 6 outstanding cases under investigation at end of previous quarter:

- One overpayment of £693.84 has been fully recovered.
- Five remain outstanding and we continue to try and establish the name and address of the executors.

**5.8 Recruitment**

- Interviews were held for the vacant Clerical Assistant Post. The preferred candidate has been selected and following the finalisation of the process will start in the next quarter.

**5.9 Queries & Complaints**

- 4439 email queries were received into the generic email account in the quarter to 31st March, this equates to approximately 70 emails per working day over the quarter. This is an increase of 609 emails from the last period (16%). E mail queries place increasing pressure on resources and work allocation as they can require a considerable amount of time to review member records and ensure that a full response is provided. This key area is being reviewed as part of the resourcing exercise.
- Complaints to Prudential: A meeting was held with the Prudential Client Service Manager regarding issues where members had reported that contributions were not being recorded timeously on AVC accounts for one employer. A full review was undertaken of and steps are being put in place to try and avoid these issues in the future.
- 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.

**5.10 Staff Training**

- **In House Training**

  During the quarter, both face to face and MS Teams based training continued to be provided within the team. With the upcoming retiral of the Pension Administration Manager, senior members of the team have also been undertaking training to enable a handover over duties. Peer to peer training delivered by experienced staff has been invaluable to impart knowledge on others. It is also recognised that this also impacts on the completion of caseloads, and stretches the resources of the team as a whole. This will be considered in the wider resource review.

**5.11 September CPI Rate Announced**

On 25 January 2024, HM Treasury (HMT) published a written ministerial statement confirming the rates of annual revaluation, earnings and pensions increase due to apply from April 2024.

The statement confirms:

- public service pensions will increase on 8 April 2024 by 6.7%, in line with the Consumer Prices Index for the year up to September 2023.
- revaluation of 6.7% plus any local addition will be used in April 2024 to revalue CARE accounts.

**5.12 McCloud remedy**

**Transfer GAD guidance**

On 5 March 2024, the SPPA, issued a new version of the Transfer actuarial guidance and an Interfund addendum document. Both documents came into effect immediately, however, the transfer guidance does not contain any new factors, but does provide additional information about how the McCloud remedy will affect certain calculations.

**Interfund addendum**

In October 2023, SPPA confirmed that interfund transfer payments in respect of members protected by the McCloud remedy could continue based on the methodology set out in the Individual Incoming & Outgoing Transfers guidance dated 14 August 2020. The Interfund guidance addendum published on 5th March 2024 confirms this arrangement can continue until 29 April 2024.

SPPA understands that updates to administration systems because of the new actuarial guidance will not happen immediately, and that these transitional arrangements aim to prevent administering authorities from building up a backlog of interfund cases while systems are updated and checked.

**Update on transfers**

Certain cases have been on hold since the LGPS regulations were amended to implement the McCloud remedy from 1 October 2023. Publication of the Individual Incoming & Outgoing Transfers guidance means administering authorities have the information they need to process:

- transfers in on Club and non-Club terms
- transfers out of deferred benefits on Club and non-Club terms.

At present, conversations with software suppliers about system updates required to reflect the new calculations are ongoing. Depending on the outcome of these, it may be necessary to consider running manual calculations in urgent cases to ensure any statutory deadlines are met.

**Deferred refunds**

There are outstanding queries concerning the treatment of transfers out of deferred member refunds. It is not clear whether the McCloud remedy applies to any or all members who hold a deferred refund in the LGPS, nor whether they would gain or retain protection on transfer to a different public service pension scheme. The latest LGA guidance recommend the following:

- Club transfers of deferred refunds potentially impacted by the underpin: remain on hold
- non-Club transfers of deferred refunds: check whether the cash transfer sum would increase because of remedy protection. If not, the transfer can continue. If it would increase, we recommend the case remains on hold.

**Divorce cases**

Currently Funds can proceed with divorce quote cases for members protected by the McCloud remedy. SPPA will be issuing new actuarial guidance on divorce debits and credits which will be needed to process a pension sharing order for a member protected by the remedy.

**Non-Club transfer spreadsheet**

On 8th March 2024, the LGA published a spreadsheet for calculating the McCloud element of a non-Club transfer value. The spreadsheet is basic, but will allow funds to calculate the McCloud element of a non-Club transfer value for a member who is under 65. Funds will need to have calculated the provisional underpin amount and provisional assumed benefits on the underpin date in order to use the calculator. The spreadsheet can be used for calculations in the current Scheme year, and the LGA are currently working on a new version of the calculator for relevant dates after March 2024.

The LGA has also confirmed that they not be creating a spreadsheet for Club transfers and if a change cannot be actioned by the software provider, then these complex calculations will need to be calculated manually.

**5.13 SPPA Circular 3/2024 – Revised Ill Health Guidance**

The Scottish Public Pensions Agency (SPPA) published Circular 3/2024 on 14 March 2024. The circular introduces revised ill health guidance. This updated guidance incorporates feedback from stakeholders and aligning with the principles set out by The Pensions Ombudsman. The circular and guidance are available on the SPPA circulars and guidance page of www.scotlgpsregs.org, and also on the Circulars page of SPPA's website.

The key changes to the guidance are that for active members, employers will be required to undertake a review of the case specifics and recommendations made by the Occupational Health Professional, and determine eligibility of case. For deferred members, this review will be undertaken by the Fund. In accordance with the revised guidance, new template ill health certificates will be issued and employer briefing sessions will be offered in the next quarter.

**5.14 SPPA contributions guidance**

The SPPA released version 18 of the Tiered Contribution Guidance on 14th March 2024, which includes the average contribution rates table for 2024/25. This has been issued to all scheme employers payroll teams to allow them to carry out their review and amendments for April 2024.

**5.15 Abolition of the Lifetime Allowance (LTA)**

The UK Government introduced legislation to abolish the lifetime allowance from 6th April 2024. It has however introduced two new lump sum limits to restrict the amount of tax-free cash an individual can take over their lifetime.

As with the lifetime allowance, most LGPS members will not be affected by the new lump sum limits below:

| Limit | Lump sums included | Lump sum allowance (LSA) |
|---|---|---|
| £268,275 | Pension commencement lump sums (PCLS) and uncrystallised funds pension lump sums (UFPLS) | Lump sum and death benefit allowance (LSDBA) |
| £1,073,100 | PCLS, UFPLS, serious ill health lump sums (SIHLS), authorised lump sum death benefits | |

The LGA is working with advisors on a guide to explain the changes and what they mean for administration processes. A short summary is provided below:

- From 6 April 2024, if a member takes a PCLS from the LGPS, funds will need to check the lump sum fits with the LSA and LSDBA. Funds will also still need to ask members how much lifetime allowance they have used before 6 April 2024 in order to do this.
- If an individual holds valid LTA protections the LSA and LSDBA are increased.
- The maximum PCLS is the lowest of:
    - 25 per cent of the capital value of the benefits
    - the remaining LSA
    - the remaining LSDBA
- Where a member has taken payment of pension benefits previously, the LSA and LSDBA are reduced accordingly. The standard calculation is the LSA less:
    - the total of any PCLS and non-taxable amounts of UFPLS paid since 6 April 2024
    - an amount equal to 25 per cent of the percentage of LTA previously used.
- However, if the member has a transitional tax-free amount certificate the calculation is:
    - the total of any PCLS and non-taxable elements of UFPLS paid since 6 April 2024
    - the individual's transitional tax-free amount.
- The LSDBA is amended similarly except that 100% of any serious ill health lump sums previously paid is deducted. Funds will also deduct any authorised death benefit lump sums previously paid.

**Transitional tax-free amount certificates**

A member may wish to apply for a transitional tax-free certificate if they opted to take a PCLS or UFPLS of less than 25 per cent when they took their benefits before 6 April 2024. In reality, this is only going to be needed where the amount of PCLS or UFPLS they can take over their lifetime is limited by the LSA and LSDB.

## 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** **14 June 2024**

**Appendix 1**

## REGULATORY COMMUNICATIONS

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

**SAB November 2023 - Minutes**
https://lgpsab.scot/minutes-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.

SAB Meeting held on 27th February 2024.
https://lgpsab.scot/agenda-27-february-2024/

The agenda included

- GAD updates on S13 valuation and cost control
- SPPA update
- Autumn statement – investments
- LGPS Fund Annual Reporting Statutory Guidance
- Update on Working Groups
- Gender Pensions Gap
- SAB Workplan – review of activities

**Wider Landscape**

- **DWP**

**The Pensions Act 2004 (Codes of Practice) (Revocation) Order 2024**
https://www.legislation.gov.uk/uksi/2024/273/contents/made
The Department for Work and Pensions (DWP) laid The Pensions Act 2024 (Codes of Practice) (Revocation) Order 2024 on 4 March 2024, which came into force on 28 March 2024.

The Order revokes the 10 codes of practice from The Pensions Regulator that are now covered by the new general code of practice. This includes Code of Practice 14 (governance and administration of public service pension schemes).

- **HMRC**

**Pension schemes newsletter 155**
https://www.gov.uk/government/publications/pension-schemes-newsletter-155-january-2024

The newsletter included several updates about the abolition of the Lifetime allowance (LTA):

- where further legislative changes will or may be needed to implement the policy
- answers to frequently asked questions – these will also be covered in more detail in future HMRC newsletters and workshops

The newsletter also includes articles on:

- the change in Scottish Income Tax rates for 2024/25
- a delay to the introduction of the function to submit a pension scheme return on the Managing pension schemes service. This was planned for April 2024. You can continue to use the Pension Schemes Online service to submit a scheme return. HMRC will publish further guidance when the new process is introduced
- migrating from the Pension Schemes Online service to Managing pension schemes service.

**Correction to newsletter 155**

On 7 February 2024, HMRC updated pension schemes newsletter 155 to correct a factual error. They confirm in question eight, regarding the abolition of the lifetime allowance (LTA) from 6 April 2024, they will not be legislating to limit which pension schemes individuals can apply to for a transitional tax-free certificate.

An individual can apply for a transitional tax-free certificate, before their first relevant benefit crystallisation event after 5 April 2024.

**Newsletter 156**

https://www.gov.uk/government/publications/pension-schemes-newsletter-156-february-2024#:%7E:text=This%20newsletter%20is%20published%20by,pension%20scheme%20return

On 23 February 2024, HMRC published pension schemes newsletter 156. The newsletter includes articles on:

- the abolition of the lifetime allowance
- pension scheme returns
- public service pensions remedy – tax treatment of interest. Interest of 8 per cent will be due on certain payments made by public service pension schemes because of the McCloud remedy. The newsletter confirms that part of the interest paid will be unauthorised in some circumstances. We will provide more information on interest payments on McCloud recalculations in part 3 of the McCloud Technical Guide, which we will publish later this year.

**LTA guidance newsletter – December 2023 - Update**

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

HMRC had published the Lifetime allowance newsletter as noted above. HMRC made two minor changes to that newsletter in January 2024. The changes concern when a pension commencement excess lump sum will be paid and the contact email address for any comments on the newsletter.
Consultation on annual allowance changes

**LTA guidance newsletter - February 2024**

https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-february-2024?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=617c6e70-5c6e-40ca-b5c7-b32a0979d123&utm_content=immediately

On 13 February 2024, HMRC published a further February 2024 lifetime allowance guidance newsletter. The newsletter contains:

- answers to frequently asked questions
- confirmation where indicated, HMRC will issue guidance and regulatory changes to implement the intended policy
- information about the new transitional tax-free certificates including who should apply, how to apply, by when to apply and the impact of obtaining a certificate
- confirmation administrators can continue to use P60 statements to report an individual's allowance used
- information about new event 24 – reporting where a lump sum paid exceeds the lump sum allowance or lump sum death benefit allowance, or would have exceeded had the individual not been relying on a protection or enhancement. (On 27 February 2024, H M R C amended the information about event report 24.)

- information about the removal of the permitted maximum when paying a pension commencement excess lump sum
- updates on the real time information reporting requirements.

**LTA guidance newsletter – March 2024**
https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-march-2024/lifetime-allowance-guidance-newsletter-march-2024
HMRC published a new LTA guidance newsletter. The newsletter answers FAQs about the LTA abolition from April 2024. These cover the following topics:

- lump sums and lump sum death benefits
- protection and enhancement factors
- reporting requirements
- transitional tax-free amount certificates
- standard transitional calculations
- member statements
- pension commencement excess lump sums
- enhanced protection
- primary protection
- overseas transfer allowance.

HMRC updated the newsletter on 15 March 2024 adding extra information to questions 14, 20 and 37.

The newsletter complements previous guidance H M R C provided in:

- LTA guidance newsletter – March 2023 https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-march-2023/lifetime-allowance-guidance-newsletter-march-2023
- LTA guidance newsletter — December 2023 https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-december-2023/lifetime-allowance-guidance-newsletter-december-2023
- pension schemes newsletter 155 https://www.gov.uk/government/publications/pension-schemes-newsletter-155-january-2024/newsletter-155-january-2024
- LTA guidance newsletter — February 2024. https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-february-2024/lifetime-allowance-guidance-newsletter-february-2024

**Consultation on annual allowance changes**
HMRC had a consultation on changes to the annual allowance for unfunded public service pension schemes. HMRC also consulted on changes set out in the draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) Order 2024. The purpose is to allow legacy and reformed scheme benefits to be combined when working out a member's pension input amount for annual allowance purposes, where they relate to the same employment.

- **HM Treasury**

On 25 January 2024, HM Treasury (HMT) published a written ministerial statement confirming the rates of annual revaluation, earnings and pensions increase due to apply from April 2024. https://questions-statements.parliament.uk/written-statements/detail/2024-01-25/hcws211

The statement confirms:

- public service pensions will increase on 8 April 2024 by 6.7%, in line with the Consumer Prices Index for the year up to September 2023.
- revaluation of 6.7% plus any local addition will be used in April 2024 to revalue CARE accounts in public service pension schemes that use prices as the measure of revaluation
- revaluation of 7.7% will be used in April 2024 to revalue the CARE accounts in public service pension schemes that use earnings as the measure of revaluation.
- The following rates will apply when revaluing earned pension credited from a Club transfer:
    - Police 7.95%
    - Firefighters 7.7%
    - Civil service 6.7%

- National Health Service 8.2%
- Teachers 8.3%
- Armed forces 7.7%
- Judicial 6.7%.

**Finance Bill 2023/24**
https://www.legislation.gov.uk/ukpga/2024/3/contents/enacted
On 22 February 2024, the Finance Bill 2023/24 received Royal Assent, following readings in the House of Lords.

The Finance Act 2024 contains provisions on the abolition of the lifetime allowance and its replacement by two new lump sum allowances.

**Pensions Increase multiplier tables**
HMT published the 2024 Pensions Increase multiplier tables and a covering letter.
https://www.legislation.gov.uk/uksi/2024/372/contents/made

**Spring Budget 2024**
https://www.gov.uk/government/topical-events/spring-budget-2024
The Chancellor, Jeremy Hunt, delivered the Spring Budget on 6 March 2024.

For the LGPS, the Budget documents confirm:

- the Government will work with the LGPS to consider the role they could play in unlocking investment in new children's homes
- as early as April 2024, the LGPS (England and Wales) will be required to publicly disclose the breakdown of their asset allocations, including UK equities.

**The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) Order 2024**
https://www.legislation.gov.uk/uksi/2024/357/contents/made
On 15 March 2024, HMT laid The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) Order 2024 before Parliament.

Effective from 6 April 2024, for the tax year 2023/24 and all subsequent years, the regulations insert a new section 236ZA into the Finance Act 2004. The new section provides for service in a specified legacy public service pension scheme and service in a reformed scheme to be combined for calculating an individual's annual allowance pension input amount. This allows individuals to balance any negative input from a legacy scheme with a positive input from a reformed scheme.

The Order has no effect on LGPS annual allowance calculations. This is because separate pension input amounts are not calculated for final salary and CARE benefits
.

**The Pensions (Abolition of Lifetime Allowance Charge etc) Regulations 2024**
https://www.legislation.gov.uk/uksi/2024/356/contents/made
HMT laid The Pensions (Abolition of Lifetime Allowance Charge etc) Regulations 2024 before Parliament on 14 March 2024, coming into force on 6 April 2024.

They amend relevant legislation to ensure the smooth operation of the new pensions tax framework following the abolition of the lifetime allowance. This includes providing for transitional issues that were not included in the Finance Act 2024 and issues with the Act that were identified through consultation with industry after it was published.

**The Pensions Increase (Review) (No.2) Order 2024**
https://www.legislation.gov.uk/uksi/2024/372/contents/made
HMT laid The Pensions Increase (Review) (No.2) Order 2024 before Parliament on 15 March 2024, coming into force on 8 April 2024.

On 8 March 2024, HMT initially laid The Pensions Increase (Review) Order 2024. However, a sequencing error in relation to the equivalent benefits uprating order rendered it legally null. Consequently, HMT had to lay it again as a second order.

**The Public Service Pensions (Exercise of Powers, Compensation and Information) (Amendment) Directions 2024**
HMT made The Public Service Pensions (Exercise of Powers, Compensation and Information) (Amendment) Directions 2024 on 20 March 2024, which came into force on 21 March 2024.

The Directions amend The Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022. These complement the McCloud remedy legislation.

Specifically, for the LGPS, the new directions delete the direction setting out the interest rate to apply on an amount owed by a member to the scheme and the direction providing for netting off. These were deemed unnecessary for the LGPS .

- **The Pensions Ombudsman (TPO)**

DWP has appointed Anthony Arter as the Interim Chair of TPO. Anthony served as the Pensions Ombudsman for eight years until January 2023, followed by a period as the Deputy Pensions Ombudsman. He will serve as the Interim Chair until a permanent Chair is appointed.

- **The Pensions Regulator (TPR)**

**General Code of Practice**
On 10 January 2024, the Pensions Regulator (TPR) responded to the 2021 consultation on the New code of practice. It is expected to come into force on 27 March 2024. It replaces Code of Practice 14 for public service pension schemes and brings together ten previous TPR Codes into one code.

TPR's research on governance and administration shows that the LGPS already has high standards of governance in place. The Code provides an opportunity for funds to review current practices, but also presents challenges during what is already a busy time for the LGPS. Clarity is required on which parts of the Code apply to the LGPS, what these mean for administering authorities and how they should be applied in practice.

**Blog on ESG risks and opportunities**
https://blog.thepensionsregulator.gov.uk/2024/02/21/trustees-take-stock-and-plan-for-wider-esg-risks-and-opportunities/

On 21 February 2024, the Pensions Regulator (TPR) published a blog on environmental, social and governance (ESG) risks and opportunities.

**Pension scams warning**
TPR would like to remind LGPS administering authorities of the dangers of pension scams.

Pension scams are a serious threat to the retirement security of pension savers. Scammers use various tactics to persuade savers to transfer out their pension benefits, often resulting in huge losses and tax bills.

The LGPS is not immune to this risk. Administering authorities are the first line of defence against scammers.

You can find useful guidance from TPR on how to avoid and report pension scams.
https://www.thepensionsregulator.gov.uk/en/pension-scams

**Blog on automatic enrolment**
TPR published a blog on automatic enrolment on 4 March 2024.
https://blog.thepensionsregulator.gov.uk/2024/03/04/new-boost-for-employer-compliance-as-ae-savers-hit-11-million-landmark/

The blog provides updates on the progress of automatic enrolment and highlights the efforts to ensure compliance with pension duties. The blog emphasises the importance of re-enrolment and compliance for employers, as well as the support available through the improved online service.

**General Code of Practice update**
The Department for Work and Pensions (DWP) laid The Pensions Act 2004 (General Code of Practice) (Appointed Day, Amendment and Revocations) Order 2024 on 26 March 2024.
https://www.legislation.gov.uk/uksi/2024/431/contents/made

The Order appoints 28 March 2024 as the day for the coming into effect of TPR General Code of Practice.

The General Code of Practice was laid before Parliament in January 2024. It replaces Code of Practice 14 for public service pension schemes and brings together ten previous codes into one.

**Speech on the growing role of TPR**
Nausicaa Delfas, the Chief Executive of TPR, delivered a speech at the recent JP Morgan Pensions and Savings Symposium.

The speech looked at the evolving landscape of the pensions industry and the growing role of TPR. You can read the full speech on TPR's website. https://www.thepensionsregulator.gov.uk/en/media-hub/speeches-and-speakers/the-growing-role-of-tpr-march-2024

**Trustee diversity and inclusion survey**
TPR published the results of its first trustee diversity and inclusion survey on 19 March 2024. Conducted from July to August 2023, the survey garnered responses from 2,197 trustees and public service pension scheme board members.

The survey confirms that trustees / pension board members are less diverse than the overall population.

The results establish a baseline to measure progress towards ensuring high standards of diversity and inclusion on pension boards.

- **McCloud**

**Non-Club transfer spreadsheet**
On 21 February 2024, the LGA emailed administering authorities in England & Wales confirming the publication of a spreadsheet for calculating the McCloud element of a non-Club transfer value. A Scottish version will be published once guidance is received from SPPA and GAD.

The spreadsheet provides for the calculation of the McCloud element of a non-Club transfer value for a member who is under 65. The provisional underpin amount and provisional assumed benefits on the underpin date must be calculated first to use the calculator.

There is a separate tab on the spreadsheet for taper protected members. The provisional figures on the underpin date will need to be split between pension built up before and after 1 April 2020 for these members. There are a very small number of members in this group, so testing of this part of the calculator was limited.

The spreadsheet can be used for calculations in the current Scheme year. The LGA will review the position in April 2024 and decide if there is demand for a revised calculator to cover the 2024/25 Scheme year.
The publication of this tool does not change the transitional arrangements for interfund payments. Until 24 March 2024, calculate these payments in line with the GAD guidance on incoming and outgoing transfers in force before 24 January 2024.

The LGA also confirmed that they will not be creating a spreadsheet for Club transfers.

- **Pensions Dashboards**

**PDP January newsletter:**
Covering Chris Curry's blog looking back at 2023 and a recording of the December PDP webinar on understanding dashboards architecture and find and view data. https://mailchi.mp/maps/pdp-jan-24-newsletter-2?e=72aa78a746

**PDP FAQs newsletters:**
The FAQs newsletters help to answer the most frequently asked questions about pensions dashboards. The January edition features FAQs about the central digital architecture. https://www.pensionsdashboardsprogramme.org.uk/frequently-asked-questions-newsletter/

**PDP blog on industry engagement:**
PDP will continue to work closely with industry, regulators and DWP to deliver dashboards. Groups and forums will continue to collaborate in 2024 and PDP invites you to register your interest in joining one of these groups. https://www.pensionsdashboardsprogramme.org.uk/2024/01/16/engagement-with-industry/

**PDP webinar:**
connection guidance and understanding AVCs and value data: watch a recording of the January webinar including speakers from PDP, PASA, DWP, TPR and Jayne Wiberg from the LGA. https://www.pensionsdashboardsprogramme.org.uk/events/#post10103

**FRC publishes revised AS TM1**
On 9 February 2024 the Financial Reporting Council (FRC) published a revised version of the Actuarial Standard Technical Memorandum (AS TM 1). This follows a consultation published in November 2023.

AS TM1 specifies the assumptions and methods to be used in statutory money purchase illustrations (SMPIs). SMP Is are used by LGPS AVC providers to project AVC estimated retirement income. This data will be shown on pensions dashboards.
Administering authorities will need to understand AVC value data as they are legally responsible for ensuring this data is displayed on dashboards. More information can be found in the LGPS Pensions Dashboards connection guide. https://lgpslibrary.org/assets/gas/uk/PDv0.1.pdf

**Guidance on deferred connection**
https://www.gov.uk/government/publications/pensions-dashboards-guidance-on-deferred-connection
On 2 February 2024, the Department for Work and Pensions published updated guidance on deferring dashboards connection. The guidance is relevant to trustees or managers of occupational pension schemes and their advisers. It sets out the issues they should consider if they are applying for a deferral of the connection deadline.
The guidance was initially published in December 2022. The updates reflect the changes made by the Pensions Dashboards (Amendment) Regulations 2023.

**PDP - blog on the central digital architecture**
https://www.pensionsdashboardsprogramme.org.uk/2024/02/13/the-central-digital-architecture/
On 13 February 2024, Chris Curry – Principle of the Pensions Dashboards Programme (P D P), published a blog on the central digital architecture, setting out what it is and how it works.

The central digital architecture is made up of three services: the Identity service, the Consent and Authorisation service and the Pension finder service. The blog explains how these services fit together to facilitate the exchange of pensions data.

**Invite PDP to an event**
If you want to know more about pensions dashboards, the PDP team is available to speak at your industry events or meetings. Email supportpdp@maps.gov.uk for more information.

- **Miscellaneous**

**Carer's leave**
The Carer's Leave Regulations 2024 have been laid before Parliament and will take effect from 6 April 2024.

The regulations provide an entitlement for employees to take one week's unpaid leave in a 12-month period to give or arrange care for a 'dependent' who has:
  - a physical or mental illness or injury that means they're expected to need care for more than 3 months
  - a disability (as defined in the Equality Act 2010) https://www.gov.uk/definition-of-disability-under-equality-act-2010
  - care needs because of their old age.

The leave can be taken in blocks from as little as half a day to one continuous week. More information about carer's leave is available on the Gov.uk website. https://www.gov.uk/carers-leave

There is no right to statutory pay when an employee takes carer's leave. DLUHC has confirmed that unpaid carer's leave will be treated in the same way as an authorised absence under the LGPS regulations.

If the employer pays the member during the period of carer's leave, their pension will continue to build up as normal.

**National LGPS Frameworks**
https://www.nationallgpsframeworks.org/
The National LGPS Frameworks is a voluntary, not for profit collaboration 'by the LGPS, for the LGPS'. It helps LGPS administering authorities and pools procure specialist pensions related products and services by setting up procurement frameworks open to all authorities, pools and Scheme employers. Although primarily designed for the LGPS, the wider public service pensions community can also use them.

Small teams from administering authorities and pools work together as founders to set up each framework, supported by the Frameworks team hosted by Norfolk pension fund. Authorities and pools across the LGPS can then save time and money by procuring from the Frameworks. Details of the current frameworks are on the National LGPS Frameworks website. Two new frameworks are due to go live soon - ISP and Member Data Services, to support Dashboard readiness, and AVC Services.

In November 2023, the founders agreed they should start the process of letting the next Pensions Administration Software Framework and explore the possibility of a new Transition Management and Implementation Framework in 2024.

**Pensions Administration Software Framework**
The current Pensions Administration Software Framework has been very well used, and there needs to be a replacement when it expires in April 2025. Several authorities have already confirmed they would like to support the new framework by being a founder. The Frameworks team welcomes expressions of interest in working with them and the other founders to help shape and set up this framework. Initial meetings are planned for April 2024.

**Transition Management and Implementation Services Framework**
The first version of this framework expired in November 2022 and it was not re-let. Since then, the Frameworks team has had enquiries from authorities and pools hoping to use this Framework. If you think a new Transition Management and Implementation Services Framework would be useful and / or you would be interested in acting as a founder to let a new version of this framework, please let the Frameworks team know.

**GAD developing AI skills**
https://www.gov.uk/government/news/developing-ai-skills
On 14 February 2024, the Government Actuary's Department (GAD) published an article on developing artificial intelligence (AI) skills. GAD is working with an AI partner to develop coding to perform quality assurance checks on administrator calculations.

**Small pots delivery group**
https://www.gov.uk/government/news/efforts-to-tackle-small-pension-pots-step-up-a-gear
On 7 February 2024, the Department for Work and Pensions launched a delivery group looking at deferred small pots left in defined contribution schemes. This follows on from the publication of the Government response to the consultation on the ending of deferred small pots. https://www.gov.uk/government/consultations/ending-the-proliferation-of-deferred-small-pension-pots/outcome/government-response-to-ending-the-proliferation-of-deferred-small-pots

**Considering Social Factors in Pension Scheme Investment guidance**
https://www.gov.uk/government/publications/considering-social-factors-in-pension-scheme-investments-a-guide-from-the-taskforce-on-social-factors
The Taskforce on Social Factors has published guidance called 'Considering Social Factors in Pension Scheme Investments'.

The guidance aims to support pension schemes in assessing the social risks and opportunities of their scheme's investment.

**ITEM No …8………..**

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|---|---|
| **REPORT TO:** | **PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD – 26 JUNE 2024** |
| **REPORT ON:** | **TAYSIDE PENSION FUND ANNUAL GOVERNANCE & GOVERNANCE COMPLIANCE STATEMENTS** |
| **REPORT BY:** | **EXECUTIVE DIRECTOR OF CORPORATE SERVICES** |
| **REPORT NO:** | **187-2024** |

## 1 PURPOSE OF REPORT

To present the Annual Governance Statement and Governance Compliance Statement for approval and inclusion into the unaudited Annual Accounts for the year ended 31 March 2024. This report sets out the governance arrangements of Tayside Pension Fund and the extent to which it complies with regulations.

## 2 RECOMMENDATIONS

It is recommended that the Committee:

- approves the Annual Governance and Governance Compliance Statements which are included as an Appendix to this report;
- instructs the inclusion of the statements in the Annual Accounts for the year to 31 March 2024.

## 3 BACKGROUND

The governance structure is the framework through which the Fund is directed and controlled. The structure is set out in the Governance Compliance Statement, which the Fund is required to prepare, maintain and publish under the Local Government Pension Scheme Regulations (Scotland) 2014.

The relevant statutory provisions regarding the preparation of the Annual Accounts are contained in the Local Authority Accounts (Scotland) Amendment Regulations 2014 which require an annual review of the effectiveness of a local authority's system of internal control. The findings of that review are to be considered by elected members, and following that review, members must approve an Annual Governance Statement.

## 4 FINANCIAL IMPLICATIONS

There are no financial implications.

## 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** **14 JUNE 2024**

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Tayside Pension Fund

# ANNUAL GOVERNANCE STATEMENT & GOVERNANCE COMPLIANCE STATEMENT

## ANNUAL GOVERNANCE STATEMENT

Dundee City Council is the administering authority and scheme manager of Tayside Pension Fund, a local government pension fund covering the three local authorities in the former Tayside area, and 39 other large and small employers. The main functions of the Administering Authority are the administration of scheme benefits and the investment of the assets of the Fund. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

**Role of the Administering Authority**

The role of Dundee City Council as the Administering Authority of Tayside Pension Fund is carried out via:

- The Pension Sub-Committee
- The Pension Board
- The Corporate Finance Section within the Corporate Services function of the Council

The Council has set up the Pension Sub-Committee with delegated responsibility to control and resolve all matters relating to the investment of assets and the overall governance of Tayside Pension Fund. It is the role of the Pensions Committee to:

- Ensure that the Fund is:
    - Compliant with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the fund.
    - Valued as required and that reports received on each valuation are considered.
- Be 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.
    - Ensuring appropriate additional voluntary contributions arrangements are in place.
    - Providing scrutiny for the Fund, reviewing the Annual governance Statement, Annual Accounts and all audit reports and arrangements.
- 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

The Pension Sub-Committee consists of 6 elected members from the administering authority, supported by officers of the administering authority (including the Executive Director of Corporate Services, who carries out the Section 95 duties on behalf of Dundee City Council). The Sub Committee meets quarterly at joint meetings with the Pensions Board. Additional meetings are arranged as required should the need arise.

The Pension Board is separate from the Pension Sub-Committee, and responsible for assisting Dundee City Council (as Scheme Manager) in relation to securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme, as well as the requirements of the Pensions Regulator. The Pension Board may consider any matter concerning pensions it deems relevant to the activities of the Pensions Sub-Committee in relation to its remit and role defined in the 2014 regulations.

The Pensions Board consists of an equal number of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies within the Fund.
Under the same 2014 regulations, the governance arrangements also included the introduction of the national Scheme Advisory Board, whose role is to provide advice to the Scottish Ministers as requested, and furthermore to provide advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the Scheme and any Funds within the Scheme The Scottish Public Pensions Agency (SPPA) is responsible for maintaining the rules of the Local Government Pension Scheme in Scotland on behalf of the Scottish Ministers and is deemed a "Responsible Authority" under the terms of the 2013 Act.

In addition, the powers of the Pensions Regulator were also extended to cover standards of governance and administration in the Local Government Pension Scheme.

**Internal Audit and other governance measures**

Internal audit services for the Tayside Pension Fund are provided by PricewaterhouseCoopers (PwC) under the Crown Commercial Service Framework for the provision of a full internal audit service to fulfil the service requirements of annual audits. PwC's services are delivered in accordance with the Internal Audit Charter, with methodology aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing, and in conformance with Public Sector Internal Audit Standards (PSIAS).

In order to provide independent assurance on the overall risk management, internal control and corporate governance processes relating to the Fund, PwC undertake an annual risk assessment which informs their audit approach. Focussing on the key issues and risks, they then develop the annual plan driven by the Fund's strategic goals and associated risks. They consider the most significant risks and the control environment, as well as the areas where review would be most beneficial to the fund. Tayside Pension Fund's Annual Risk Assessment & Internal Audit Plans are approved by the Pension Sub-Committee.

Taking cognisance that Internal Audit is one of a number of sources of assurance, and in developing the risk assessment and internal audit plan, PwC also consider the following sources of assurance and reliance:

- Audit Scotland, as external auditors
- Dundee City Council Internal Audit (annual progress review)
- National Fraud Initiative

In order to conform with PSIAS which apply to all internal audit service providers within the public sector, and the Local Authority Accounts (Scotland) Regulations 2014, The Head of Internal Audit is required to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework based upon, and limited to the audit work undertaken with the aim of providing reasonable assurance.

To enable this opinion to be provided, the following internal audit reviews were undertaken:

- Pension Administration
- Liquidity Management
- ESG Strategy (Advisory Review)
- TPR General Code (Advisory Review)

The Head of Internal Audit must be satisfied that sufficient internal audit work has been undertaken within the financial year to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and controls. Tayside Pension Fund has received a Satisfactory Opinion of the Fund's governance, risk management and control, based upon the two internal audit reviews undertaken in the year, and two advisory reviews performed. There were 2 medium and 5 low risk rated findings across the internal audit reviews completed in the period. PwC advise that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

The Fund takes part in the National Fraud Initiative in order to identify if fraud has been committed and pensions have been wrongly paid, and take subsequent recovery action. Occasionally incorrect payments may be made because of genuine error and this could result in payments to pensioners being increased. This exercise therefore helps promote the best use of public funds. No significant fraud or errors were identified during this process.

The Fund held employers meetings online throughout the year, and ensured that all key reports have been made available to stakeholders at the earliest opportunity via the Fund's website. The Fund intend to reinstate an annual face to face event through the course of the new financial year.

**Scope of Responsibility**

Dundee City Council has the responsibility for ensuring that the business of Tayside Pension Fund is conducted in accordance with the law and appropriate standards, and for ensuring there is a sound system of governance (incorporating the system of internal control) and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as continuous improvement in the way its functions are carried out.

In discharging these duties Elected Members and senior officers are responsible for implementing effective arrangements for governing the Council's affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To this end the Council has approved and adopted a Local Code of Corporate Governance that is consistent with the principles of the CIPFA/SOLACE (Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives) framework Delivering Good Governance in Local Government. The Local Code of Corporate Governance explains how Dundee City Council delivers good governance and this Annual Governance Statement reviews the effectiveness of these arrangements.

In addition, the Council is responsible for confirming effective corporate governance arrangements exist within its other group entities. In line with Accounts Commission guidance, including Safeguarding Public Money: are you getting it right? Following the Public Pound and Arm's Length External Organisations (ALEOs): are you getting it right?, part of that responsibility is about ensuring that public money is being used appropriately and achieving Best Value.

**The Governance Framework**

Tayside Pension Fund operates within the wider governance framework of Dundee City Council. The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled. It enables the Council to monitor the achievement of its planned objectives and outcomes and to consider whether those objectives and outcomes have led to the delivery of appropriate, cost-effective services, and also provides direction for stakeholder engagement and communication.

The Local Code of Corporate Governance is supported by detailed evidence of compliance which is regularly reviewed by a working group of senior officers.

Within the overall control arrangements, the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented altogether or detected within a timely period. It is based on a framework of regular management information, financial regulations, administrative procedures and management supervision and checking.

The overall control arrangements include:

- Identifying the Council's objectives in the Council Plan, Community Plan and Local Outcomes Improvement Plan (City Plan).
- Monitoring of achievement of those objectives and outcomes by the Council and senior officers.

- A systematic approach to monitoring service performance at Elected Member, senior officer and project level.
- Reporting performance regularly to Council Committees.
- Three-year service plans for all service areas. Regular performance reports in relation to the service plans began to be reported to relevant Committees from November 2021.
- Performance Management Framework.
- Clearly defined Standing Orders and Schemes of Administration covering Financial Regulations, Tender Procedures and Delegation of Powers.
- A Monitoring Officer to ensure compliance with laws and regulations.
- A Scrutiny Committee and individual Service Committees. The functions of the Scrutiny Committee are undertaken as identified in Audit Committees: Practical Guidance for Local Authorities, however, for Tayside Pension Fund, scrutiny is provided by the Pension Board rather than an audit committee.
- Approved anti-fraud and corruption strategies including "whistle-blowing" arrangements under the Public Interest Disclosure Act 1998.
- Ethical Values Framework.
- A Corporate Integrity Group.
- A Serious Organised Crime Group.
- Senior Officer Resilience Group.
- Council Leadership Team and each Service's Senior Management Teams.
- Participating in the National Fraud Initiative for sharing and cross-matching data with regular reports to Committee.
- Formal project appraisal techniques and project management disciplines.
- Setting targets to measure financial and service performance.
- Long-term Financial Outlook and Financial Strategy 2020 – 2030.
- Formal revenue and capital budgetary control systems and procedures.
- An Our People and Workforce Strategy is in place to support delivery of the Council Plan and its strategic priorities.
- A Risk Management Policy and Strategy, Corporate and Service Risk Registers.
- Corporate Risk and Assurance Board, chaired by the Executive Director of Corporate Services as Senior Responsible Officer for risk.
- Corporate Governance Assurance Statement Group.
- Strategic Information Governance Group.
- Data Protection Policy and Data Breach Management Procedure.
- The assurances provided by internal audit through their independent review work of the Council's governance, risk management and control framework.

**Review of Effectiveness**

Members and officers of the Council are committed to the concept of sound governance and the effective delivery of Council services and consider comments made by external and internal auditors and other review agencies and inspectorates and prepare actions plans as appropriate.

The effectiveness of the governance framework is reviewed annually by a working group of senior officers. The 2023/24 review of governance arrangements against the Local Code of Corporate Governance has identified the Council as being 99% (2022/23: 99%) compliant with the principles of the CIPFA/SOLACE framework Delivering Good Governance in Local Government.

In addition, Executive Directors from each service have made a self-assessment, in conjunction with their senior management teams, of their own governance, risk management and internal control arrangements. This involved the completion of a 74-point checklist covering eight key governance areas of Service Planning and Performance Management; Internal Control Environment; Fraud Prevention and Detection; Budgeting, Accounting and Financial Control; Risk Management and Business Continuity; Asset Management; and Partnerships; and Information Governance. This continues to score a high level of compliance, with an overall score above 92% for 2023/2024 (2022/2023: 91%).

Over and above the Internal Audit Service delivered by PwC, the Council's Internal Audit Service also operates in accordance with the Public Sector Internal Audit Standards and reports functionally to the Scrutiny Committee. Conformance with the PSIAS should be confirmed independently, through the completion of a formal External Quality Assurance (EQA) process. The independent review was due to be undertaken in 2023 but has been subject to delay of the reviewer. Conformance with PSIAS, with the exception of updating the EQA within 5 years has been confirmed by the self-assessment prepared by the Service as part of the review. Internal Audit undertakes an annual programme of work, which is reported to the Scrutiny Committee. The Senior Manager – Internal Audit provides an independent opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework. The overall audit opinion, based on the above, is that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2024.

The Executive Director of Corporate Services complied fully with the five principles of the role of the Chief Financial Officer, as set out in CIPFA guidance. The Council's financial management arrangements conform with the requirements of the CIPFA Financial Management (FM) Code (2019).

**Continuous Improvement Agenda**

The following are service improvements specific to Tayside Pension Fund achieved during 2023/24:

| **Business Area** | **Item** | **Description** | **Status / Information** |
|---|---|---|---|
| Finance & Governance | Employer contributions | Changes required following review to assess adequacy of design and operating effectiveness of key controls supporting the employer contributions process | Additional controls implemented |
| Investment | Investment Strategy | Implementation of recommendations to achieve further diversification | Exercise completed |
| Administration | Changes to legislation | Analysis of records and plan to be developed & implemented to enable changes to legislation in relation to discrimination are implemented | Exercise ongoing |
| | Pensions Dashboard | Action of requirements following advisory review to assess readiness | Recommendations implemented |

The following are service improvements specific to Tayside Pension Fund planned for 2024/25:

| **Business Area** | **Item** | **Description** | **Status / Information** |
|---|---|---|---|
| | Review of structure, roles and resources / Business Resilience | Recommendation of audits to review as a result of increasing number of new additional legislative and governance requirements | In initial stages |
| | Investment Strategy | Review of the design of key controls and governance that lead to advising on and setting the investment strategy. | Scheduled |

| | | | |
|---|---|---|---|
| Finance & Governance | Employer Covenant | Employer engagement following outcome of review undertaken 2019/20 with aim of implementing recommendations | Delayed from previous year as a result of resource constraints. |
| | Admission Agreements | Standardisation of admission agreements | Delayed from previous year and will coincide with covenant exercise |
| Investment | Investment Strategy | 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. | Scheduled |

Information on the Fund is available from the following links:

Minutes of Joint Pension Sub-Committee and Pension Board meetings – http://www.dundeecity.gov.uk/minutes/meetings?in_cc=35&in_dat=1

Fund Website - http://www.taysidepensionfund.org/tayside-pension-fund/about-us/forms-and-publications

- The Statement of Investment Principles, concerning the approach to the investment of the fund
- The Business Plan, communicating the aims and objectives of the Fund for the forthcoming year
- The Treasury Management Policy and Strategy for the forthcoming year.
- The Actuary's report on the 2023 valuation
- The Funding Strategy Statement, concerning the management of the identification and management of the Fund's liabilities
- The Risk Policy & Register
- The Governance Policy Statement which sets out the Funds approach
- Environmental, Social and Corporate Governance Policy for investment.
- Pension Administration Strategy
- Communications Policy
- The Governance Compliance Statement, setting out the governance arrangements and compliance with regulations

**Conclusion**

The annual review demonstrates sufficient evidence that the Code's principles of delivering good governance in local government operated effectively and compliance with the Local Code of Corporate Governance in all significant respects for 2023/2024. It is proposed over 2024/2025 steps are taken to address the items identified in the Continuous Improvement Agenda to further enhance governance arrangements.

# GOVERNANCE COMPLIANCE STATEMENT

## 1. Role and Responsibilities

Dundee City Council has statutory responsibility for the administration of the Local Government Pension Scheme ("LGPS") in respect of the three local authorities in the former Tayside area, and over 43 other large and small employers.

The main functions are:
- management and investment of scheme funds; and
- administration of scheme benefits

These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972.

Dundee City Council carries out its role as Administering Authority via:

- The Tayside Pension Fund Sub-Committee of the Policy & Resources Committee;
- Tayside Pension Fund within the Corporate Finance Section of the Councils Corporate Services Directorate.

Tayside Pension Fund also acts as a payroll agent for compensatory added years payments within the Teachers Superannuation Scheme.

## 2. Delegation

The function of maintaining the Tayside Pension Fund is delegated by Dundee City Council to its Tayside Pension Fund Sub-Committee. The Fund's policy documents are available at: http://www.taysidepensionfund.org/about-us/forms-and-publications.aspx

## 3. Terms of Delegation

The terms, structure and operational procedures of delegation are set out in the report to Dundee City Council's Policy & Resources Committee on 9th February 2015. The report is available at: http://www.dundeecity.gov.uk/reports/reports/447-2014.pdf

## 4. Committee Meetings

Regular meetings of Tayside Pension Fund Sub-Committee are held quarterly. Committee meeting dates are listed in the Council Diary which is available at: https://www.dundeecity.gov.uk/service-area/corporate-services/democratic-and-legal-services/minutes-meetings-and-reports

## 5. Representation

The Tayside Pension Fund Sub-Committee is comprised solely of elected members of Dundee City Council. Employing authorities and scheme members are represented by Tayside Pension Fund Pension Board.

## 6. Compliance

The following demonstrates the assessment to the extent that the Fund is in compliance with guidance given by Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying:

## GOVERNANCE COMPLIANCE STATEMENT

| **Compliance Principle** | **Arrangements in Place/Action Taken** | **Compliance with Principle? Yes/No/Partial** | **Comments** |
|---|---|---|---|
| Structure | | | |
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. | Principal responsibility for the administration of benefits and strategic management of fund assets rests with the Pension Sub-Committee of the Policy & Resources Committee of Dundee City Council as the scheme manager for Tayside Pension fund. Report 447-2014 Review of Governance Arrangements – Tayside Pension Fund states:<br><br>***Tayside Pension Fund is administered by Dundee City Council as the administering authority with responsibility for the management of pension investment delegated to the Tayside Pension Sub-Committee with day to day operational matters further delegated in the main to the Director of Corporate Services.***<br><br>The responsibilities to be discharged by the Committee include:<br><br>• Preparing, maintaining and publishing the Governance Compliance Statement.<br>• Ensuring that the Scheme Manager complies with the Local Government Pension Scheme (Scotland) Regulations and all other legislation governing the administration of the Fund.<br>• Preparing, maintaining and publishing the Funding Strategy Statement.<br>• Preparing, maintaining and publishing the Pensions Administration Strategy.<br>• Ensuring the Fund is valued as required and receiving and considering reports on each valuation.<br>• Ensuring appropriate arrangements for the administration of benefits are in place.<br>• Setting the admissions policy.<br>• Preparing, maintaining and publishing the Communication Policy Statement.<br>• Ensuring appropriate AVC arrangements are in place.<br>• Preparing, maintaining and publishing the Statement of Investment Principles. - Setting the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.<br>• Appointing, dismissing and assessing the performance of investment managers and custodians.<br>• Preparing, maintaining and publishing the Corporate Governance Policy<br>• Ensuring appropriate arrangements for the Local Pension Board are in place and maintaining and publishing information about the Pensions Board.<br>• Approving the Business Plan.<br>• Ensuring that an effective system of internal financial control is maintained.<br>• Receiving and agreeing the Annual Report and Accounts.<br>• Ensuring that contributions received are in accordance with the Schedule of Rates and Adjustments. | Yes | |

| Compliance Principle | Arrangements in Place/Action Taken | Compliance with Principle? Yes/No/Partial | Comments |
|---|---|---|---|
| | The Committee reviews the role and responsibilities of service providers to the Fund. The actions of the Committee are reviewed and scrutinised by the Local Pension Board. | | |
| | Dundee City Council, as Scheme Manager, has established a Local Pension Board.<br>Report 447-2014 Review of Governance Arrangements – Tayside Pension Fund states:<br><br>***Dundee City Council as Scheme Manager is required to establish a Pension Board separate from the Tayside Pension Fund Investment Sub-Committee that acts as the Scheme Manager.***<br><br>***The Pension Board is the body responsible for assisting the Scheme Manager in relation to securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme and the requirements of the Pensions Regulator.***<br>***The Pension Board may consider any matter concerning pensions it deems relevant to the activities of a Pensions Committee including the following (in relation to their remit and role defined in the 2014 regulations):***<br><br>• ***Reports produced for the Pensions Sub-Committee***<br>• ***Requisition reports from the scheme managers on any aspect of the fund***<br>• ***Monitor investments and the investment principles/strategy/guidance***<br>• ***The fund annual report***<br>• ***External voting and engagement provisions***<br>• ***Fund administrative performance***<br>• ***Actuarial reports and valuations***<br>• ***Funding policy***<br>• ***Any other matters that the Pension Board deem appropriate*** | | |
| That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. | Membership of the Pension Sub-Committee comprises of six councillors from Dundee City Council with voting rights.<br><br>Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies in membership of the fund. Pension Board representatives must not also participate in or act as members of the Pensions Sub-Committee. Local Authority employer representatives will normally be Elected Members serving as part of the Council.<br><br>There are 4 employer representatives appointed by the respective employer | Yes | |

| Compliance Principle | Arrangements in Place/Action Taken | Compliance with Principle? Yes/No/Partial | Comments |
|---|---|---|---|
| | organisations as follows:<br>Councils 2 (1 x Angus Council, 1 x Perth & Kinross Council)<br>Scheduled & Admitted bodies 2<br><br>There are 4 trade union representatives appointed from the following trade unions:<br>GMB 1 Unite /UCATT 2<br>UNISON 1<br>Advisors to the Pension Board may attend meetings of the Pension Board in a non-voting capacity. | | |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. | Meetings of the Pension Sub-Committee and Pension Board are joint and concurrent with administered by Dundee City Council as the administering authority. Report 447-2014 Review of Governance Arrangements – Tayside Pension Fund states:<br><br>***While the statutory roles and function of the Pensions Sub-Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pensions Sub-Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.*** | Yes | |
| That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. | All members of the Pension Sub-Committee are members of the Dundee City Council Policy & Resources Committee. | Yes | |
| | The membership of the Committee and Local Pension Board is independent of one another, as provided for in the Regulations, as it is believed that separate membership is preferable for the discharge of their statutory duties. | | |
| | **The Scheme of Delegations to the Fund's Officers**<br><br>The Council's Scheme of Delegations authorises the Chief Executive, Corporate Directors and Officers authorised by them to exercise the powers and carry out the duties arising from the functions for which they are responsible. | | |

| Compliance Principle | Arrangements in Place/Action Taken | Compliance with Principle? Yes/No/Partial | Comments |
|---|---|---|---|
| | The authorised Officers are the Executive Director of Corporate Services, The Head of Corporate Finance and the Senior Financial Services Manager.<br><br>**Procurement Procedures**<br><br>Procurement of works, goods or services on behalf of the Fund is required to comply with guidelines provided by Dundee City Council as scheme manager and in line with national frameworks.<br>**The Fund's Officers**<br><br>The main duties of the Officers are set out below. The Officers will:<br>• Advise the Committee and Local Pension Board on all matters which they need to be aware of in order to discharge their responsibilities in relation to the administration and investment of the Fund.<br>• Prepare the Budget and Service Plan.<br>• Maintain the system of internal financial control.<br>• Prepare the Annual Report and Accounts.<br>• Manage the triennial and interim actuarial valuations.<br>• Manage the preparation of the Funding Strategy Statement.<br>• Manage the preparation of the Governance Compliance Statement.<br>• Manage the preparation of the Communication Policy Statement.<br>• Manage the preparation of the Pensions Administration Strategy.<br>• Ensure that the Pensions Service adheres to best practice.<br>In relation to the investment of the Fund, the Officers will:<br>• Review the content of the Statement of Investment Principles.<br>• Review the content of the Environmental, Social and Corporate Governance Policy.<br>• Monitor developments that may affect the approach to the investment of the Fund.<br>• Monitor the investment management structure and arrangements in order to verify that the investment policy of the Committee is being implemented.<br>• Monitor the investment managers in order to maintain an awareness of their investment views and strategies and to verify that the strategies being implemented are in accordance with investment mandates.<br>• Maintain records that monitor the investment performance of investment managers and the Fund.<br>• Maintain a record of the Fund's assets.<br>• Monitor the security and efficiency of the custodians in order to verify that the assets are secure, the custodians' records of the Fund's assets agree with in house records and managers' records and the custodians' actions are in accordance with the agreements. | | |

| Compliance Principle | Arrangements in Place/Action Taken | Compliance with Principle? Yes/No/Partial | Comments |
|---|---|---|---|
| | • Manage cash flow, allocate money between investment managers in order to ensure that the Fund does not become over or under invested and invest the residual cash balances.<br><br>In relation to the administration of benefits, the Officers will:<br>• Monitor developments that may affect the administration of benefits.<br>• Promote membership of the Fund.<br>• Manage the admissions policy.<br>• Collect and reconcile the employer and employee contributions.<br>• Pay pension benefits.<br>• Maintain records in relation to the entire membership.<br>• Devise and implement training, consultation and communication strategies for the employers.<br>• Devise and implement consultation and communication strategies for the members.<br>• Manage the AVC arrangements. | | |
| Representation | | | |
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:<br>i) employing authorities (including non-scheme employers, e.g. admitted bodies); | The Pension Sub-Committee includes 6 councillors from Dundee Council.<br>The Pension Board has 2 employer representatives of employing authorities and 2 of admitted employers. | Yes | |
| ii) scheme members (including deferred and pensioner scheme members); | The Pensions Board has 4 Trade Union representatives who represent all scheme members (including deferred and pensioner scheme members) as required by regulation. | Yes | |
| iii) where appropriate, independent professional observers; and | The External Investment Advisor, Isio Ltd, attend annual Committee meetings. The Actuary, Barnett Waddingham, attends Committee meetings as required. | Partial | There has been no request to appoint further |

| Compliance Principle | Arrangements in Place/Action Taken | Compliance with Principle? Yes/No/Partial | Comments |
|---|---|---|---|
| iv) expert advisors (on an ad-hoc basis). | | Partial | independent observers or advisors |
| That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights | All members of the Committee are treated equally in terms of access to papers, meetings and training. They are given full opportunity to participate and contribute to the decision-making process as appropriate and required.<br><br>All members of the Local Pension Board are treated equally in terms of access to papers and meetings, training and are given full opportunity to participate in their decision-making process. | Yes | |
| Selection and Role of Lay Members | | | |
| That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Members are made aware of the full details of status, role and function prior to selection and appointment. This area is also covered in their training program.<br><br>Local authority members are subject to the code of conduct of their respective council.<br>The trade union and employer representatives are required to agree to accept the same code of conduct applicable to their role and duties to Tayside Pension Fund. | Yes | |
| That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda related to specific matters on the agenda | Declaration of interests is a standard procedure at the start of all Pension Sub-Committee and Pension Board meetings. This is stated at the start of each agenda, and any declarations are noted in the minutes. | Yes | |
| Voting | | | |
| The policy of individual administering authorities on voting rights is clear and transparent, including the | All Pension Sub-Committee members have voting rights.  This is detailed in the Tayside Pension Funds Statement of Investment Principles. | Yes | |

| Compliance Principle | Arrangements in Place/Action Taken | Compliance with Principle? Yes/No/Partial | Comments |
|---|---|---|---|
| justification for not extending voting rights to each body or group represented on main LGPS committees. | Each member of the Pension Board will have an individual voting right but it is expected the Pension Board will as far as possible reach a consensus. The Chair of the Pension Board will have the final casting vote which will be reported to the Scheme Manager. | | |
| Training / Facility Time / Expenses | | | |
| That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | All new members of the Pension Sub-Committee are offered training by officers. Further training is offered periodically, generally from investment consultants, investment managers of the fund and actuaries. In addition, if other training opportunities are identified, including attendance at conferences and seminars, these are offered to members, as appropriate.<br>Costs and expenses incurred are met by the Pension Fund.<br><br>The Scheme Manager recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.<br><br>The Scheme Manager is using the following to promote:<br>• CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills<br>• CIPFA Pensions Panel Framework for Elected Members and Non-Executives in the Public Sector to use as the basis of the Training Policies and Programmes.<br>• CIPFA Pensions Panel Technical Knowledge and Skills Framework for Local Pension Boards<br>Training programmes are undertaken that reflect specific needs, and which include the appropriate requirements of the Pensions Regulator's Codes of Practice.<br><br>Costs and expenses incurred are met by the Pension Fund. | Yes | Continuous training programme in line with needs. New Committee & board members will undergo training accordingly |
| That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. | Training requirement is applicable to all members of the Pension Sub-Committee and Board. | Yes | |
| That the administering authority considers the adoption of annual training plans for committee members and maintains a | Training programmes are undertaken to reflect specific needs, and which include the appropriate requirements of the Pensions Regulator's Codes of Practice.<br>The training programme is reviewed regularly and members of the Sub-Committee and Pension Board assess their individual requirements. | Yes | |

| Compliance Principle | Arrangements in Place/Action Taken | Compliance with Principle? Yes/No/Partial | Comments |
|---|---|---|---|
| log of all such training undertaken. | | | |
| Meetings (Frequency/Quorum) | | | |
| That an administering authority's main committee or committees meet at least quarterly. | The Pension Sub-Committee and Pension Board have a regular quarterly joint meeting at which it considers investment and administration matters.<br>Additional meetings are called should any aspect of the Fund require.<br><br>Both the Pension Sub-Committee and Pension board require 3 members apiece to be quorate. If the Pension Board fail to achieve required membership, the Pension Sub-Committee meeting will continue. | Yes | |
| That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. | The Pension Sub-Committee and Board meet jointly on a quarterly basis. | Yes | |
| That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Employer Forum for scheduled and admitted bodies is held annually, including presentations on topical subjects. | Yes | |
| Access | | | |
| That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that | Subject to the management of any conflict of interest, all members are treated equally in terms of access to committee papers, documents and advice. | Yes | |

| Compliance Principle | Arrangements in Place/Action Taken | Compliance with Principle? Yes/No/Partial | Comments |
|---|---|---|---|
| falls to be considered at meetings of the main committee. | | | |
| Scope | | | |
| That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | The agendas include reports on training, admission agreements, policies on discretions, pensions administration, regulatory changes, budget monitoring, local performance indicators, the service plan, internal and external audit, valuation issues, the funding level, the asset value and asset allocation, proposals to develop the investment management structure, investment performance at Fund and manager level. | Yes | |
| Publicity | | | |
| That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Governance Policy Statement was approved in May 2009, following consultation with all employers. The governance arrangements may be viewed on the Fund's website at: http://www.taysidepensionfund.org/about-us/forms-and-publications.aspx | Yes | Governance Policy Statement and Governance Compliance Statement are available on the Council website. |