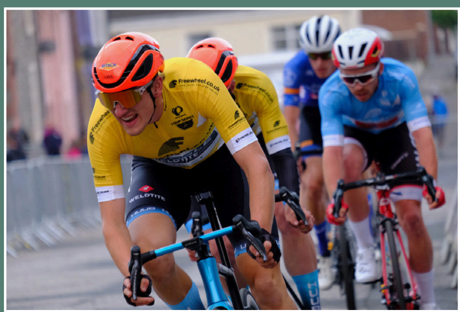
Dumfries and Galloway Council Pension Fund



Annual Accounts 2021/2022

Dumfries & Galloway COUNCIL

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Foreword

Introduction
The Financial Statements included in this document present the Pension Fund's financial position for the year ended 31 March 2022. These have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), supported by International Financial Reporting Standards.

The purpose of these Accounts is to provide clear information about the Pension Fund's financial position and this Foreword is intended to give a guide to the most significant matters reported in the Accounts.

The Pension Fund's Financial Position
The net value of the Pension Fund's assets as at 31 March 2022 was £1,097.9 Million, an increase of £94.6 Million during the year. Details of these movements in the net value of the Fund's assets are provided in the Fund Account and can be summarised as follows: -

Opening Value at 1 April 2021	£1,003.3 Million
Add Contributions (Scheme Members and Employers)	£33.6 Million
Less Benefits Paid, Transfers Out and Other Expenses	(£39.4 Million)
Add Gain on Investments	£100.4 Million
Closing Value at 31 March 2022	£1,097.9 Million

The net gain of £100.4 Million on investments includes £93.9 Million for increases in market values, with the remaining £6.5 Million in respect of net investment income. In the early part of 2021/22, the fund continued to recover well from the 2020 rapid decline in global markets due to the COVID 19 pandemic. However, in the latter part of the year there have been some fluctuations across the markets following the Russian invasion of Ukraine, which will continue to have an impact on fund valuations into the new financial year.

The Fund is subject to a detailed actuarial valuation process on a triennial basis. The most recent valuation (as at 31 March 2020) indicated that the Fund was in deficit with the value of assets equating to 92% of projected future liabilities. Employer contributions have been set to seek to address this deficit in the medium to longer term. This approach will be subject to further review based on future triennial valuations.

Acknowledgement
I would like to thank elected Members and colleagues for their assistance and support throughout the year in maintaining and promoting a sound financial management and control framework. I would also like to thank those staff whose efforts have contributed to the preparation of the Annual Report & Accounts.

Paul Garrett
Head of Finance & Procurement
29 November 2022

Management Commentary

Overview of The Fund

Under the terms of the Local Government Pension Scheme, Dumfries & Galloway Council is designated as a Scheme Manager (Administering Authority) and is required to operate and maintain a pension fund - the Dumfries & Galloway Council Pension Fund ("the Fund").

The Fund is used to pay pension, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by active (i.e. employee) members and by participating employers. The Fund also receives income from the assets it holds, which include equities, property, and bonds.

Membership

The membership profile of Dumfries and Galloway Council Pension Fund is as follows; -

- active – a person who is employed with the Council or an Admitted or Scheduled Body to the Fund and is contributing to the LGPS,
- pensioner – a person who has retired and in receipt of a pension, includes dependants,
- deferred – a pension that has been left 'frozen' and is payable at normal retirement date.

Scheme membership is made up of active members, deferred members, and pensioner members. To be eligible for fund membership, you must be an employee of a participating employer and not eligible to join one of the other public sector pension schemes

Membership numbers are most affected by persons joining or leaving the scheme as part of normal staff turnover. From time to time, however, there can be more significant membership movements resulting from factors such as economic circumstances or changes in scheme rules.

In general, there has been a steady increase of membership since 2003. Our members value the pension scheme and the high intake, and the introduction of Automatic Enrolment demonstrates that. The graph shows an emerging trend where the number of pensioner and deferred members is increasing at a faster rate than active members. Such a trend, if maintained, will have implications on the Fund's cash flows, investment strategy and contribution rates.

Employers within the scheme
As well as Dumfries & Galloway Council, participating active employers are:

• Dumfries and Galloway College, • Scottish Police Authority, • Scottish Fire & Rescue Service, • The Crichton Trust,	• Amey plc, • Scottish Agricultural College (Barony). • Greystone Rovers • Sodexo (Fire and Rescue Cleaning Staff) • Park Homes

.
An actuarial valuation of the Fund is held every three years as an independent financial health check and determines how much money has to be paid into the Fund to keep it in a position to pay benefits both now and in the future. The last valuation carried out at 31 March 2020 showed that the Fund was 92% funded, meaning that it had 92% of monies needed to pay all the future benefits of scheme members. It is important to note that the time horizon of the Fund is long term. Consistent with this, there is a Funding Strategy Statement which allows employers with strong financial covenants to recover a deficit position over 15 years. Moreover, there is a stability mechanism used to help employers budget for their contributions by limiting increases or decreases to future contribution rates.

Investment Management

Investment Management of the Fund is undertaken by external fund managers and overseen by the Council's Treasury and Capital Team. The Fund's assets are invested in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The regulations cover the appointment of fund managers and the use and investment of fund money. The Fund is required to take proper advice about its investments.

The Statement of Investment Principles and the Fund's Funding Strategy Statement give more information on the Fund's investment framework.

The table below indicates the historical asset allocations against the target allocations agreed by Members of the Pension Sub Committee on 27 September 2018.

	31 March 2021 Allocation		31 March 2022 Allocation		Proposed Target Allocation	
Growth						
UK equities	17.1%		17.6%		16%	
Global equities	41.0%		42.1%		36%	
Diversified Growth Fund	13.8%	71.9%	9.8%	69.5%	10%	62%
Income						
Property	8.9%		9.8%		12%	
Diversified Income Fund	2.1%	11.0%	5.9%	15.7%	8%	20%
Protection						
Index linked gilts	4.7%		4.4%		5%	
Corporate bonds	10.7%		8.9%		10%	
Emerging market debt	1.7%	17.1%	1.5%	14.8%	3%	18%
		100%		**100%**		**100%**

Work continued throughout the year to complete the current investment strategy. The main actions outstanding were completing the transfer of the Funds commitment of £70 Million to BlackRock's Strategic Alternative Income Fund (SAIF). As at 31 March 2022 £62.48 Million of this commitment had been called. It is anticipated that this fund will be further drawn down over the next 6 months and will increase our income generating assets. Market fluctuations over the past 18 months are causing actual allocations to drift from target, however this will be addressed in the upcoming review of the Investment Strategy following the results of the 2020 triennial valuation.

There has been an increased focus on Economic, Social and Governance (ESG) policies in recent years and in response to this a Responsible Investment Beliefs Statement was developed and agreed by Pension Sub Committee on 8 March 2022. This will also be considered as part of the current investment strategy review.

The investment strategy review is being undertaken in conjunction with Hymans Robertson LLP, investment advisors to the Fund. The initial results from the strategy review were presented to Pensions Sub Committee on 8 December 2021 and Members agreed the high-level change in investment strategy. This change will result in a 10% reduction in growth seeking assets to fund a corresponding increase in income generating assets. Details on how this high-level change will be achieved is yet to be decided. Due to the changes in membership of the Committee following the Local Government Election on 5th May 2022, there has been a pause to the strategy review, which will be continued once all members of the new committee have completed their training.

As at 31 March 2022 the fund had five managers appointed, and they have been delegated the responsibility to invest the Fund's assets in accordance with agreed mandates. The managers are:

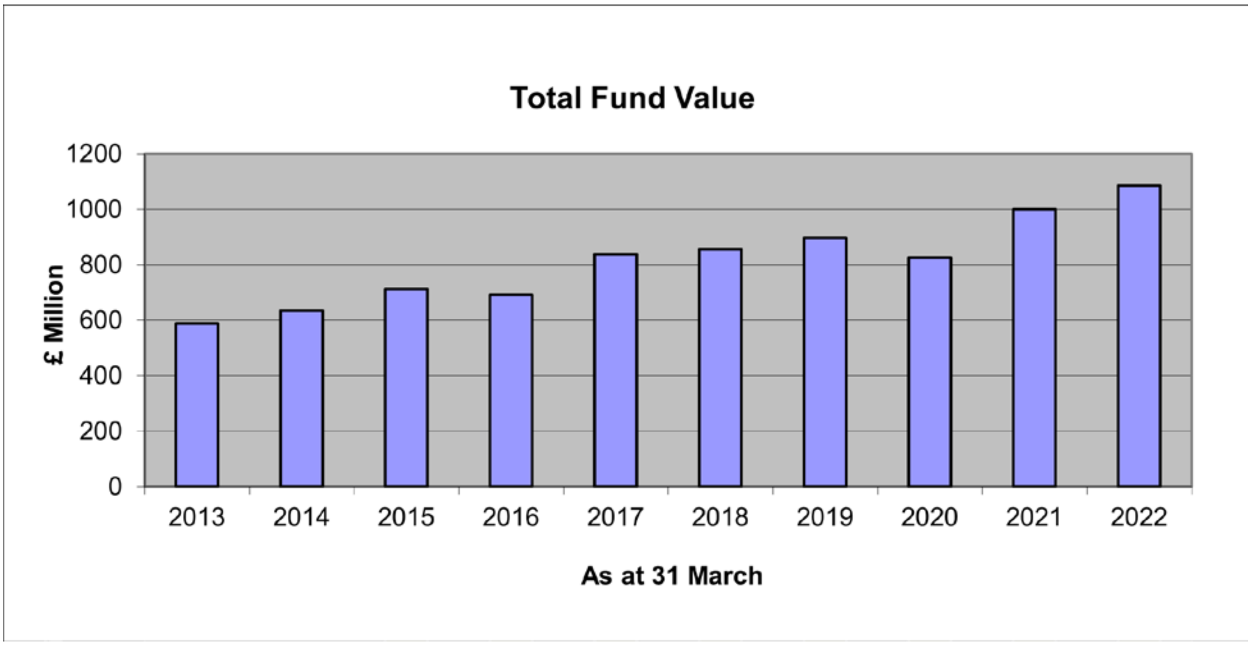
Manager	Mandate		Benchmark
Legal & General	UK Equities	Passive	FTSE All Share
Legal & General	Global Equities	Passive	MSCI World Index
Legal & General	Bonds	Passive	Bespoke
Legal & General	Emerging Market Debt	Passive	JPM Govt Bond Index – Global Diversified Index
Legal & General	RAFI	Passive	FTSE RAFI
Lothbury	Property	Active	MSCI All Balance Funds
Columbia Threadneedle	Property	Active	MSCI All Balance Funds
BlackRock	Property	Active	MSCI All Balance Funds
BlackRock	Alternative Income	Active	Gilts
Baillie Gifford	Diversified Growth	Active	Absolute Return

Performance

The fund has responded to the challenges of unprecedented events and market conditions in recent years. Political uncertainty, geopolitical issues as well as COVID 19 and the ongoing conflict in Ukraine have continued to play heavily on financial markets during 2021/22. Despite this the Fund has delivered positive returns through most quarters of 2021/22, most notably in the first quarter to June 2021.
Key points on performance during the year are:

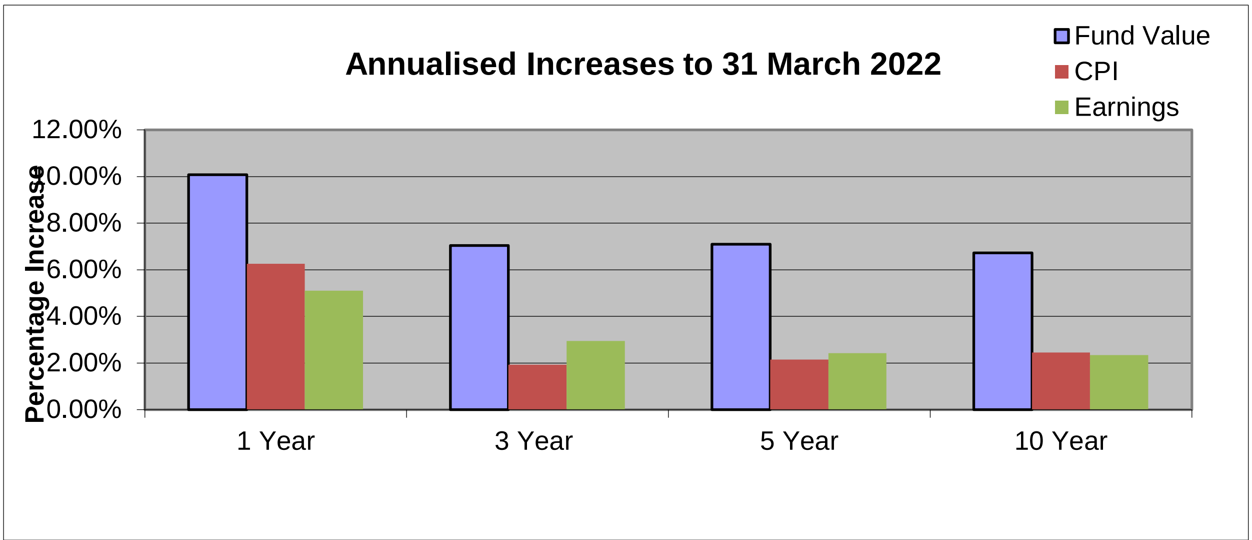
- investment returns were 9.8% during 2021/22, slightly above the benchmark of 9.5%,
- annualised investment returns are slightly behind benchmark over the three-year period, being 6.6% against a benchmark of 6.8%,
- over the five-year period annualised investment returns are trailing benchmark being 5.5% against a benchmark of 5.8%,
- passive manager Legal & General was in line with benchmark for its UK equity, Global equity, and bond mandates for the last twelve months.
- the three property managers were behind of benchmark, as a result of the ongoing market conditions relating to COVID 19
- Baillie Gifford reversed last year's overperformance, with a marginal negative return against benchmark.

As the fund has a negative net cash flow (contributions received being less than benefits paid) investment returns have an important role to play in securing the health of the fund over the long term. This year's positive investment performance has seen the total Fund value increasing from £1,003.3 Million at 31 March 2021 to £1,097.9 Million at 31 March 2022. The Fund has seen a gradual year on year increase in value and has increased by £497 Million since March 2013. Annual values are shown in the following graph:



The upward movement in Fund value last year was well above both price and wage inflation, two of the main areas to which the liabilities of the Pension Fund are linked. The annualised increases over the three, five, and ten-year periods were also all ahead of inflation. The figures are shown in the following table and graph.

Annualised Increases Over	1 Year %	3 Years %	5 Years %	10 Years %
Net Fund Value	10.08	7.04	7.09	6.72
Consumer Price Index (CPI)	6.26	1.92	2.15	2.45
National Average Earnings	5.10	2.95	2.42	2.34



Trends and Influences

As membership of the Fund rises the active/deferred/pensioner ratio had shown a reduction in the percentage of active members within the fund. This has led to a position in recent years where cash receipts from contributions have had to be supplemented with investment income to meet benefit liabilities. This situation is expected to continue, and is an issue being addressed as part of the implementation of the new investment strategy whereby we are making a modest switch from growth seeking assets to income seeking assets as a move towards improving the cash flow position of the Fund.

Following the 2008 financial crisis, the European Commission instigated a review of its Markets in Financial Instruments Directive (MiFID). MiFID II came into effect from 3 January 2018 and the FCA policy reduced the classification of LGPS from “professional” to “retail” (which significantly reduced the investment opportunities for Funds) unless they pass the qualitative and quantitative tests required to achieve professional status.

The size of the Fund meant that we met the Quantitative test to achieve professional status. In recognition of typical LGPS governance arrangements, in order to satisfy the requirements of the Qualitative test the policy statement states that “Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions”. The Fund was able to demonstrate that it had an appropriate training package to ensure that the Sub Committee Members have the knowledge and understanding required to meet their obligations and was therefore able to opt up to professional status successfully. Priority will continue to be given to an ongoing training package so ensuring that all members of both the Pensions Sub Committee and Pensions Board have the necessary knowledge and skills required to carry out their duties on behalf of the Fund going forward.

Pensions Administration Review

This section provides an update on arrangements made during 2021/22 for the administration of the Dumfries and Galloway Council Pension Fund.

Staffing

Administration of the Scheme is in-house and undertaken by the Pensions Section of Human Resources, People and Transformation service of the Council.

The section consists of 6 employees (5.45 full time equivalent).

The Section comprises of the following:

Role	No.	Average Years of Council Service
Team Leader Pensions	1	31 years
Pensions Officer	1	12 years
Pensions Assistant	4	5 years

Management support is provided by both the HR Business Partner and Manager

Strategic Objectives

- To deliver a professional, high quality service through having highly skilled, motivated, and empowered staff,
- To be fully accountable to all stakeholders for the governance of the Fund and for Scheme administration.

Values

- Supporting Customer First,
- Continuous improvement,
- Value for money,
- Performance Management.

Service Objectives
The Pensions Section objectives are encompassed within the overall HR objectives as contained within the Economy and Resources Business Plan. The team have recently developed specific service objectives:

- to provide a fully integrated pensions service from during recruitment to retirement,
- to provide a fully integrated pensions service to all other pension business,
- to provide high quality of service throughout,
- to provide access to a wide range of services to all members,
- develop/maintain administration systems, provide management information, ensure financial advice service, deliver personal support to employees, pensioners and dependants and relatives.

Systems
The Council uses the Aquila Heywood's pension administration system Altair. This system is used in all 11 Administering Authorities in Scotland.

The system creates a record for everyone who has a pension liability from the Fund and records retirements, deaths, transfers, refunds etc. in the Local Government Pension Scheme. The Altair system is supported by Aquila Heywood on both software and hardware platforms and back up and secure data storage is managed by Aquila Heywood.

The Council's HR/Payroll system, known as iTrent, pays pensioner benefits and this is managed by the Council's Finance and Procurement function. However, the Pensions Team has direct access to iTrent and can make amendments to payroll pensioner records.

Risk Management
The administration service considers the risks associated with the service and is regularly audited to ensure that appropriate risk mitigation is considered for each control. The types of risks which have been identified are.

- key person risk - where smaller administering authorities are sensitive to the knowledge and experience held by a small number of individuals,
- data risks – the system contains sensitive and personal data, but appropriate securities are in place to keep the data secure and recover where necessary,
- hardware risks – where hardware fails then appropriate support is provided on a 24/7 basis to ensure the smooth running of the operation,
- financial management risks – monetary amounts are processed daily, and appropriate controls are in place to authorise payments.

Activity Review 2021/22
General
The Section successfully completed all its statutory functions within the required timescales during the reporting period, e.g., the payment of pensions and lump sum benefits and the issuing of annual statements.

Performance Review
High quality administration continues to be a key focus for the service to ensure compliance with the regulations and to provide members and their families/representatives with an excellent customer service. Our customer approach means that the team respond quickly to customer enquiries while maintaining a high-quality service.

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

The Pensions Section prepares and maintains the communication policy for the Dumfries and Galloway Council Pension Fund. The key objectives of the communication policy are:

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

Details of the LGPS, including enrolment, contributions, benefits and updates on legislation can be found on the Council's website at https://www.dumgal.gov.uk/pensions.

In addition, the Pensions Section continues to focus on Customer Engagement, in line with the Pension Regulator's (TPR) recommendations that pension scheme managers need to enhance communications with members and to provide better and more timely access to information and expertise. This is designed to increase members' understanding of pension scheme benefits to aid retirement planning.

Due to the Coronavirus pandemic all face-to-face customer engagement was suspended in February 2020. This resulted in communications and customer engagement provision in 2021/22 mainly being:

- Annual pension forecasts for active and deferred members,
- Telephone calls, emails, Teams or Skype meetings offered as an alternative to face-to-face communications.
- LGPS 2018 Scheme Guide
- National LGPS (Scotland) 2018 website
- Local LGPS website

I-Connect
I-Connect is a system that provides a strategic and secure solution for electronic data transmissions between fund employers and the fund, enabling significant cost savings and improved service levels to the employers and members alike. All employers are enrolled and providing information via I-Connect.

Data Quality
In 2015 the Pensions Regulator (TPR) assumed responsibility for setting standards for good administration, data quality and governance of public sector pension schemes including the Local Government Pension Scheme (LGPS). TPR requires schemes to improve the standard of record keeping by ensuring data is complete, accurate and up to date ("testing data"). In doing so the service will identify, evaluate, monitor, and manage risk and ensure the effective administration and valuation of the scheme.

Analysis of common data, for example name, address and National Insurance number shows DGC data is 98% accurate 2% of inaccuracies occurred due to incomplete or unknown member addresses. A data improvement plan has been implemented to address any inaccuracies and trace missing member addresses.

In depth analysis of scheme specific (conditional) data shows DGC data is 97% accurate. Records that failed the testing were almost entirely because of incorrectly recorded historical data which does not directly affect benefits made to members. All records which failed testing are being investigated as part of a Data Improvement Plan.

Guaranteed Minimum Pension Review
In 2016, the Government announced that Public Sector Pension Schemes needed to review pension data which linked LGPS benefits to contracted-out employment and the State Pension. This is known as the Guaranteed Minimum Pension (GMP) data reconciliation review. The purpose of this review is to ensure that records held by the scheme and by Her Majesty's Revenue and Customs (HMRC) are correct. Our examination of the data has identified 75 (1.4%) records to be investigated. This work will be concluded by 31st March 2023.

Performance
In 2015 the Pensions Regulator (TPR) assumed responsibility for setting standards for good administration, data quality and governance of public sector pension schemes including the Local Government Pension Scheme (LGPS). TPR requires schemes to improve the standard of record keeping by ensuring data is complete, accurate and up to date ("testing data"). In doing so we will identify, evaluate, monitor, and manage risk and ensure the effective administration and valuation of the scheme.

Performance standards are set out in the Administration Strategy and these are reported annually to Members. Key Performance Indicators for 2020/21 were reported to Members in June 2021 and include the following:

	Target	2020/21	2021/22
Key statutory deadlines met (including payment deadlines)	100%	96%	97%
Annual member Admin Cost	Under £25.00	£26.37	£35.05*
Staff/Member ratio	n/a	1:2,939	1:3,172
Number of complaints		7	4
Annual pension forecasts issued by 31st August	100%	96%	100%
Payment of lump sum on death (15 days of info received)	90%	83%	95%
Payment of retirement pension (10 days of info received)	90%	85%	96%
Early leaver payment of refund (30 days)	90%	57%	87%

*Significant increase in 21/22 due to additional system costs in relation to I-Connect.

Focus is given to the statutory requirement to issue all pension statements by 31st August. As a result, non-statutory deadlines are given a lower priority resulting in the timescale for payment increasing. However, providing high quality customer service remains a priority. Increased customer engagement (workshops, roadshows, drop-in sessions, and family visits) together with clear communications, ensures our customers' expectations are met resulting in positive feedback and a low level of complaints.

Covid-19
We have adapted our process and procedures to ensure we remain fully functional and continue to deliver great service to our members and employers with minimal disruption, whilst the team were required to work remotely from home as per Scottish Government (SG) guidance. We have implemented robust processes in place which will continue to ensure an effective service delivery as hybrid working becomes the new normal way of working.

Staff Development
In the last 18 months there has been an integration of new staff members into the team. All members of The Pensions Section have coped with the challenges of learning a new and complex role remotely. The team has been flexible in approach to working and learning using the tools available to them.

Fund Actuary
Hymans Robertson LLP is the Council's Pension Fund Actuary.

The Next 12 Months – 2022/23

McCloud
When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older scheme members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes were discriminated against because the protections did not apply to them. This ruling is known as McCloud, after one of the claimants. There will be legislative changes to all public sector schemes to remove age discrimination in the provision of an underpin calculation extended automatically to younger members of the LGPS. A data collection exercise is needed to calculate the underpin. Heywood Pension Technologies have been engaged to gather the necessary information from employers and update member records when rectification is laid in law.

Hybrid Working
The Pensions Section has moved to a hybrid model of both working from home and in the office. This will continue to be monitored to ensure staff well-being and values are maintained.

Pre-retirement and Planning for Your Future workshops
Pre-retirement, Planning for Your Future and Pension Taxation workshops are now offered online and have received a significant uptake, these will continue to be promoted to our members.

Staff Development
The Pensions Section will continue to use the online training system and take advantage of the new courses offered by the Local Government Association (LGA). A record of training is held for each team member and is reviewed regularly to identify any skill gaps and training opportunities. Regular 1:1 meetings are held to identify skill gaps and opportunities for learning and development.

Governance Statement
Annual Governance Statement

Dumfries & Galloway Council acts as Administering Authority and delegates all pension scheme investment business to its Pensions Sub Committee which meets quarterly.

The Sub Committee comprises eleven Elected Members. As at 31 March 2022 these were:

- Councillor Archie Dryburgh (Chair)
- Councillor John Campbell (Vice Chair)
- Councillor Graham Bell
- Councillor John Charteris
- Councillor Malcolm Johnstone
- Councillor Henry McClelland
- Councillor Jim McColm
- Councillor Matthew Ronnie
- Councillor Willie Scobie
- Councillor Stephen Thompson
- Councillor Adam Wilson

Membership of the Committee will be updated following the Local Government Elections on 5 May 2022.

The Sub Committee's key responsibilities are:

- establishing and reviewing investment strategy,
- ensuring the suitability and adequate diversification of investments,
- setting strategic asset allocation benchmarks and individual manager's benchmarks and targets,
- reviewing on a regular basis the investment managers' performance,
- the selection and appointment of investment managers and custodians, as required,
- all issues relating to the administration and payment of benefits.

Membership of the Board consists of four employer representatives and four Trade Union representatives. As at 31 March 2022 these were:

- Councillor Douglas Fairbairn (Dumfries and Galloway Council) (Chair)
- Councillor Richard Brodie (Dumfries and Galloway Council)
- Councillor David McKie (Dumfries and Galloway Council)
- Scott Proctor (Dumfries and Galloway College)
- Jan Andrews (UNISON)
- Colin Graham (UNITE)
- Philip McGroggan (UNISON)
- David Stainthorpe (UNISON)

The Board is required to rotate the position of Chair between employer and Trade Union representatives on an annual basis.

The responsibility of the Pension Board is to assist the scheme manager in securing compliance with the Regulations and the requirements imposed in relation to the Scheme by the Pensions Regulator. The Pensions Sub Committee continues to have responsibility for all pension matters.

The management of the Pension Fund is governed by a suite of appropriate management arrangements, such as:

- appropriate strategic investment policies (such as the Funding Strategy Statement and Statement of Investment Principles).
- performance management arrangements, especially for Fund investments
- systems of internal control to safeguard assets and ensure best value.
- engagement with stakeholders and clear policy on representative roles and responsibilities.
- Governance Statement.

The Council as Administering Authority of the Pension Fund has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control. The review of effectiveness is informed by assurances from

- the work of professional accountancy staff within the council,
- effective performance reporting arrangements and management information.
- specific internal audit reviews.
- the annual report and accounts; and
- external audit observations, comments, and recommendations for improvement.

In addition, Internal Audit as part of their annual review make assessment on the adequacy and effectiveness of the Council's Internal Controls, which are also relevant to the Pension Fund. The overall annual internal audit opinion concludes that "reasonable assurance can be placed upon the adequacy and effectiveness of the Council's corporate governance systems for the year to 31 March 2022."

These arrangements provide an acceptable level of assurance that the Pension Fund is managed and administered appropriately and in line with legislative requirements. An annual training plan is produced and monitored throughout the year. Training of Members and Officers will be key in ensuring the continued adequacy of these governance arrangements. The Fund was able to demonstrate that its' governance arrangements were appropriate during the successful opt up to professional status under MiFID II requirements.

Statement on the System of Internal Financial Control

The Statement on the System of Internal Financial Control outlines how an effective system of internal financial control is maintained and operated in connection with the resources concerned. The statement is reproduced on page 15.

Statement of Investment Principles

In accordance with Pension Regulations, the Fund has published a Statement of Investment Principles governing its decisions about Fund investments. This statement is supplemented by a Responsible Investment Beliefs Statement that was agreed by Pension Sub Committee on 8 March 2022. The statement is reproduced on page 17.

Funding Strategy Statement

As required by the Pension Regulations, the Council's approach to funding its scheme liabilities is set out in the Funding Strategy Statement. The statement is reproduced on page 26.

Governance Compliance Statement

Compliance with statutory guidance relating to governance arrangements for the Fund is kept under review. A copy of the current compliance statement relative to the Guidance has been produced and is included on page 12.

Governance Compliance Statement

The Regulations that govern the management of LGPS Funds in Scotland require that a Governance Compliance Statement be published. The Dumfries & Galloway Council Pension Fund has published a Governance Policy (copy available on the Dumfries & Galloway Council's website). Provided below is the Governance Compliance Statement that sets out the extent to which governance arrangements comply with best practice.

Principle		Full Compliance	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.	Yes	Dumfries & Galloway Council as scheme manager (administering authority) has delegated all pension scheme matters to the Pensions Sub Committee. The Pensions Sub Committee currently consists of eleven elected members from Dumfries & Galloway Council with full voting rights.
	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.	Yes	The introduction of the Pensions Board (the Board) has formalised the involvement of the employers and trade unions representing the membership. The Pension Board has been created to assist the scheme manager and consists of four employer representatives and four Trade Union representatives.
	That where a secondary committee of panel has been established, the structure ensures effective communication across both levels.	N/A	No secondary panel established.
	That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	N/A	No secondary panel established.
Representation	a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • Employing authorities (including non-scheme employers, e.g., admitted bodies). • Scheme members (including deferred and pensioner scheme members). • Where appropriate, independent professional	Yes	Members of the Pensions Sub Committee are selected from the elected members of Dumfries & Galloway Council. Employing authorities are represented by four representatives on the Pension Board. Scheme members are represented by four Trade Union representatives on the Pension Board.

	observers, and • Expert advisers (on an ad-hoc basis).		Investment advisers provide advice to the Committee as required. Finance and Pensions Officers also attend in an advisory capacity.
	b) 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.	Yes	All Sub Committee members, and Pension Board members, receive the same access to all papers and training, and participate fully in the decision-making process.
Selection and Role of Lay Members	a) That committee or panel members are made fully aware of the status, role, and function that they are required to perform on either a main or secondary committee.	Yes	Following the May 2017 elections, a formal training programme was developed and is updated annually. Additionally, if any training requirements are established during the year this will arranged and added to the plan. Ongoing training will continue to be provided.
	b) 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.	Yes	The declaration of Member's interests is a standard item on the agenda of the Sub Committee.
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	Members of Dumfries & Galloway Council on the Sub Committee have full voting rights. Section 14 of the Local Government & Housing Act 1989 states a member of a committee who is not a member of that authority shall be treated as a non-voting member. However, the administering authority has discretion over this matter. This discretion has not been adopted.
Training / Facility Time / Expenses	a) 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.	Yes	Members' training is funded from the Pension Fund.
	b) 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.	Yes	All members are treated equally under the training policy.

	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	Current training for Sub Committee members and Pension Board members includes presentations from investment managers, investment advisers and scheme actuary. Members receive training each year and this is monitored.
Meetings frequency	a) That an administering authority's main committee or committees meet at least quarterly.	Yes	Joint meetings of the Pensions Sub Committee and Pensions Board are held at least four times a year.
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	N/A	No secondary panel established.
	c) That an administering authority who does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	N/A	Pension Board membership consists of 4 representatives of employers and 4 Trade Union representatives for members. As well as the Joint meetings with the Pensions Sub Committee the Board can call its own meetings as and when required.
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 falls to be considered at meetings of the main committee.	Yes	All members are treated equally. Committee papers and minutes are publicly available on Dumfries & Galloway Council's website.
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pensions Sub Committee deals with all matters relating to both the administration and investments of the Pension Fund.
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 scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	Pension Fund governance documents are published on the Dumfries & Galloway Council website. There is regular communication with employers and scheme members.

The Governance statement was approved at the meeting of the Pensions Committee and signed on its behalf:

Councillor Archie Dryburgh
Chair of Pensions Sub Committee
29 November 2022

Statement on the System of Internal Financial Control

1. This statement is in respect of the Statement of Accounts of Dumfries & Galloway Council Pension Fund. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

2. The system of internal financial control can provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within an acceptable period of time.

3. The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision and a scheme of delegation and accountability. The system is maintained and developed by officers within the Council and Pension Fund, along with external advisers, and includes:

- comprehensive accounting systems that record income and expenditure for both member and investment activities,
- regular reviews of investment reports that measure investment returns against agreed benchmarks,
- regular reviews of investment manager reports that measure performance against agreed targets.

4. The Council's internal audit section operates in accordance with Public Sector Internal Audit Standards which have been endorsed by CIPFA and other internal audit standard setters. The Chief Internal Auditor has a professional reporting relationship with the Section 95 Officer and oversight of internal audit's work (including review of reports and tracking of audit actions) is performed by the Council's Audit, Risk and Scrutiny Committee. The internal audit section undertakes an annual programme of work based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the control environment. The Chief Internal Auditor has provided an assurance statement to the Council that includes his opinion on the adequacy and effectiveness of the system of internal financial control.

5. My review of the effectiveness of the system of internal financial control is informed by:

- the work of Internal Audit as described above,
- the work of professional accountancy staff within the Pension Fund,
- the External Auditor's reports,
- my direct knowledge of the Pension Fund's financial systems, processes, and reporting arrangements.

6. Having reviewed the framework it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Pension Fund's internal financial control systems.

7. The Pension Fund's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Paul Garrett
Head of Finance & Procurement
Section 95 Officer
29 November 2022

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

Dumfries & Galloway Council, as the administering authority for Dumfries & Galloway Council Pension Fund, is required to:

- decide for the proper administration of its financial affairs and to ensure 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 in the year to 31 March 2022 was the Head of Finance and Procurement,
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014 and The Coronavirus (Scotland) Act 2020), 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)
- manage its affairs, to secure economic, efficient, and effective use of resources and safeguard its assets,
- to approve the Annual Accounts for signature.

I confirm that these Audited Annual Accounts were approved for signature by Dumfries and Galloway Council Pension Sub Committee at its meeting on 29 November 2022.

Councillor Archie Dryburgh
Chair of Pensions Sub Committee
29 November 2022

The Chief Financial Officer Responsibilities

The Head of Finance and Procurement is responsible for the preparation of the Pension Fund's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/ LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code).

In preparing the Annual Accounts, the Head of Finance and Procurement has:

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

The Head of Finance and Procurement has also:

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

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

Paul Garrett
Head of Finance & Procurement
29 November 2022

Statement of Investment Principles

Background

The Legal Requirements

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 requires Pension Fund administering authorities (scheme managers) to prepare, maintain and publish a Statement of Investment Principles (SIP) governing their decisions on the investment of the Pension Fund. The statement must cover the policy on:

- the types of investment 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 considered in the selection, retention, and realisation of investments.
- the exercise of the rights (including voting rights) attaching to investments, if it has any such policy; and
- stock lending.

The SIP must also cover the extent to which the authority complies with guidance given by the Scottish Ministers and, to the extent it does not so comply, the reasons for not complying. This guidance requires reference to the 6 principles of investment practice set out in the CIPFA publication “Investment Decision Making and Disclosure in the Local Government Pensions Scheme - A Guide to the Application of the Myners Principles”.

The Scheme

The Local Government Pension Scheme (LGPS) was set up under statute to provide death, retirement, and other benefits for all eligible employees. The LGPS is a defined benefit scheme funded by employee and employer contributions. Up to 1 April 2015 benefits were based on an employee’s final salary, after this date benefits are based on career average earnings (CARE). From 1 April 2009 employee contributions are applied in tiers ranging from 5.5% to 12% depending on the member’s rate of pensionable pay. Prior to this a flat rate of 6% of pensionable pay applied (certain manual employees contributed at the rate of 5%). Employer contributions are set following an actuarial valuation review of the assets and liabilities of the Scheme every three years. The benefits of the Scheme are defined by statute. The LGPS is managed by several designated administering authorities, of which Dumfries and Galloway Council is one such authority. Each administering authority maintains a Pension Fund (the Fund) and invests monies not required immediately to meet benefits.

Governance

The Pensions Sub Committee

The Pensions Sub Committee (the Sub Committee) is made up of elected representatives of Dumfries and Galloway Council who each have voting rights. It is assisted by the Pension Board which has four employer representatives and four Trade Union representatives. The Sub Committee reports to the Full Council and has full delegated authority for all Pension Fund decisions. The Sub Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy. The responsibility of the Pension Board is to assist the scheme manager in securing compliance with the Regulations and the requirements imposed in relation to the Scheme by the Pensions Regulator. The day to day management of the Fund is carried out by appointed external professional investment managers.

Investment Principles

The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long-term financial performance of the organisations in which they invest.

Framework
The SIP forms part of a framework that includes:
- the Statutory Regulations.
- the Pensions Sub Committee.
- the Pension Board.
- the Fund's advisers.
- the Funding Strategy Statement.

Advice
The Sub Committee receives and considers advice from officers of the Council and as necessary from its appointed external investment consultant, (including specific investment advice), the actuary to the Fund, and its investment managers. Following a procurement exercise Hymans Robertson LLP were reappointed as external investment consultants for the period 1 July 2021 to 30 June 2026. Hymans Robertson LLP were reappointed as actuary to the Fund in 2006 and these services will be tendered in advance of the next triannual valuation in 2023. The Sub Committee monitors the level of fees that are paid to the advisers to ensure that the advice is at an appropriate level and represents value for money.

Responsibilities

The Pensions Sub Committee is responsible for:
- overall investment strategy and strategic asset allocation regarding the suitability and diversification of investments.
- monitoring compliance with this Statement of Investment Principles and reviewing its contents.
- appointing investment managers, an independent custodian, the Fund actuary, external independent advisers, and investment consultant.
- reviewing investment manager performance, against established benchmarks on a regular basis.
- reviewing the managers' expertise and the quality and sustainability of their investment process, their procedures, risk management, internal controls, transaction costs and key personnel.
- reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights.
- reviewing and monitoring Fund performance through acceptance of Triennial Valuation Reports, Annual Reports & Accounts and Annual Administration Performance Reports.

The Pension Board is responsible for assisting each scheme manager in relation to:
- securing compliance with the Regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected to it.
- securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator.
- such matters as the scheme regulations may specify.

The Pensions Sub Committee is advised by Officers of Dumfries and Galloway Council, who are responsible for:
- providing support for, and ensuring the implementation of, the Sub Committee decisions.
- ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Sub Committee.
- management of surplus cash, pending transmission to the investment manager in accordance with the Dumfries and Galloway Council's Treasury Management Code of Practice (excluding loans to any employer within the fund).
- arranging the voting of shares in accordance with agreed policy.
- ensuring proper resources are available for Dumfries and Galloway Council's responsibilities to be met.

The Investment Managers are responsible for:
- the investment of Pension Fund assets in compliance with the legislation and the detailed investment management agreement.
- tactical asset allocation around the strategic benchmark set by the Sub Committee.
- stock selection within asset classes.
- preparation of quarterly reporting including a review of investment performance, voting activity and transaction costs.
- attending meetings of the Sub Committee as required

The Actuary is responsible for:

- undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required.
- advising on the rate of employer contributions required to maintain appropriate funding levels.
- providing advice on the admission of new bodies to the scheme, including external employers following externalisation of services.

The Investment Consultant is responsible for:

- advising on the asset and liability matching position of the Fund.
- advising on the appropriateness of the investment strategy of the Fund and its implementation on an annual basis.
- advising on the selection of investment managers, and the custodian.
- providing investment information, investment advice and continuing education to the Sub Committee and the Council Officers.
- quarterly and annual Independent monitoring of the investment managers, their activities, and associated costs, their performance, compliance with the mandate, adherence to their stated investment style and personnel and organisational matters.

The Investment Consultant is authorised by and registered with the FCA for the provision of investment advice.

Fund Objectives

Principal Objectives

The principal objective of the Fund is to ensure that scheme members and their dependants receive benefits as they become payable.

Funding Objectives

The funding objectives are set out in the Funding Strategy Statement. The main funding objectives are:

- to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment (i.e., ensure the long-term solvency of the Fund).
- to enable employer contribution rates to be kept as constant as possible and at reasonable cost to the Scheduled Bodies, Admitted Bodies and to the taxpayers.
- to manage employers' liabilities effectively; and
- to maximise investment returns within reasonable risk parameters.

Investment Policy

Investment Objectives

The investment objective of the Fund is to maintain an appropriate funding level and to target growth in the value of the assets sufficient to facilitate low and stable employer contribution rates in the long term. To this end, the assets of the Fund are not structured in a way that closely matches the liabilities of the Fund, but they are weighted towards equity type investments, which historically have provided a greater return over fixed interest type assets.

Power to Invest

The powers and duties of the Authority to invest Fund monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. The Council is required to invest any monies not immediately required for the payment of benefits and pensions. The Council is also required to take account of the need for diversification, and to take account of advice from persons properly qualified by their ability and practical experience of financial matters to provide that advice.

Types of Investment

The Sub Committee has approved the following types of investment to achieve investment objectives:

- equities (including Managed Funds, Unit Trusts, Investment Trusts, Open Ended Investment Companies, and Insurance Contracts).
- bonds, including index-linked and fixed interest bonds issued by both Governments and Corporations.
- Property.
- Currency.

- absolute return.
- cash.

Other asset classes may be added by the Sub Committee after consideration of suitable advice on the merits of the asset class. Investments may be in UK or overseas markets and made either directly or through pooled funds.

The Fund may also make use of contracts for differences and other derivatives, either directly or in pooled funds, for the purpose of efficient portfolio management or to hedge specific risks.

Strategic Asset Allocation
The strategic asset allocation is set by reference to the liability profile of the Fund. Asset liability models are used by external advisers to determine the allocation of assets and are intended to achieve the objective of maximising investment returns within reasonable risk parameters.
The revised allocation, agreed in September 2018 is as follows:

	Current Allocation		Interim Allocation		Proposed Target Allocation	
Growth						
UK equities	17.6%		16%		16%	
Global equities	42.1%		36%		36%	
Diversified Growth Fund	9.8%	69.5%	18%	70%	10%	62%
Income						
Property	9.7%		12%		12%	
Diversified Income Fund	5.4%	15.1%	0%	12%	8%	20%
Protection						
Cash	0.5%		0%		0%	
Index linked gilts	4.4%		5%		5%	
Corporate bonds	8.9%		10%		10%	
Emerging market debt	1.6%	15.4%	3%	18%	3%	18%
		100%		**100%**		**100%**

An Interim Allocation position is required as the Income Funds (Property and Diversified Income Funds) take some time to set up and Capital Calls are often required over an extended period (potentially 2 years or more), therefore the Committee agreed an interim increase in the Diversified Growth Fund whilst these new funds were being selected and set up.

Investment Managers
The management structure has been constructed to balance the risks, rewards, and costs of investing the schemes assets. In particular, because of the size of the Fund, it is appropriate to have diversification between asset managers, following different approaches. The current manager structure as at 31 March 2022 is shown in the following table.

Manager	Mandate	% of Fund	Benchmark	Target
Baillie Gifford	Absolute Return	9.8%	Absolute Return	Outperform
Lothbury	Property	3.4%	MSCI All Balanced Funds	Outperform
Legal & General Investment Managers	Passive UK Equities	17.6%	FTSE All Share	Match
Legal & General Investment Managers	Passive Global Equities	21.4%	MSCI World Index (NDR)	Match
Legal & General Investment Managers	Passive Bonds/Gilts	14.9%	Bespoke	Match
Legal & General Investment Managers	Multi Factor Index	20.7%	FTSE RAFI	Match
BlackRock	Property	2.9%	MSCI All Balanced Funds	+ 0.5%
BlackRock	Alternative Income	5.4%	Gilts	+2-3%
Columbia Threadneedle Property	Property	3.4%	MSCI All Balanced Funds	Outperform

At the Pensions Sub Committee on 19 February 2019 agreed to appoint Blackrock and allocate 8% of the fund (approx. £70 Million) to their UK Strategic Alternative Income Fund (SAIF). As at 31 March 2022 £62.48 Million had been invested. The remaining commitment was drawn down prior to signing of these accounts.

Fees paid to managers tend to be based on the market value of the funds under their control. None of the current managers have a performance related element within their fee structure.

Diversification of Investments
The Fund has diversified amongst asset classes and within asset classes.

The outperformance targets normally dictate the amount of investment risk the investment managers will take. In setting investment manager performance targets the Sub Committee has carefully considered risk. Fixed interest assets are in place to provide the “matching” part of the portfolio and therefore risk should be low.

Regarding the equity and property portfolios, these are where the additional return and growth of the asset values is expected to occur. All equity assets are currently held in pooled vehicles. Active managers have been set the target of outperforming their respective targets by specified amounts.

The Fund has a specific allocation to property. This is in pooled property funds, as it is considered that direct exposure to property is not suitable for a Fund of our size. The pooled approach allows the Fund to be exposed to all the property sectors, regions, and lot sizes of individual stocks that the Fund could not access in a direct portfolio. Property exposure itself also adds risk and return diversification benefits as the sector has a low correlation to equities.

Performance Targets
Performance targets are set on a rolling three-year basis in relation to the benchmark and weighted indices above. The investment manager’s performance against the benchmark targets are measured at quarterly and annual intervals by The WM Company which provides independent performance statistics and by the Investment Consultant who interprets those statistics and comments on the level of risk and activities taken by the managers to achieve the performance.

Expected Return on Investments
The Fund expects its investments to produce a return over the long term in line with the investment return assumed in the triennial actuarial valuation.

Realisation of Investments
The majority of the Fund’s assets are in equities and bonds which can be realised within a matter of days. Investments in other asset classes, property, may take longer to realise, perhaps a period of months.

Stock Lending
The Sub Committee permits the use of stock lending within the limits prescribed in regulation. Although the Sub Committee has no direct control over stock lending within pooled vehicles it is comfortable that the nature and extent of the activity are appropriate to the Fund.

Reporting
The investment manager's investment decisions and actions are reported quarterly to the Sub Committee. The Sub Committee publishes this Statement of Investment Principles and the minutes of their meetings, which include the results of their monitoring of the advisers and the investment managers.

Review
The investment strategy is reviewed periodically with a major review taking place every three years following the actuarial valuation of the Fund. Following the completion of the actuarial valuation as at 31 March 2020 a formal review of the strategic asset allocation is currently being undertaken.

Risk
The Fund is exposed to several risks which pose a threat to it meeting its objectives. The principal risks, and the way in which they are managed, are:

- financial mismatch. The risk that the Fund assets fail to grow in line with the cost of meeting its liabilities. The Sub Committee measures and manages financial mismatch in several ways. It has set a strategic asset allocation benchmark for the Fund and assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns. It also assesses risk relative to liabilities by monitoring benchmark returns relative to liabilities. The Sub Committee keeps under review demographic assumptions which could impact on the cost of benefits. These assumptions are considered formally in the triennial valuation.
- systemic risk. The risk of an interlinked and simultaneous failure of several asset classes and/or investment managers. The Sub Committee seeks to manage systemic risk through its diversified portfolio and the appointment of several investment managers.
- liquidity risk. The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. This is controlled by the regular estimating of cash flow to ensure that sufficient cash balances are available. By holding most of its assets in liquid assets such as equities and bonds any unexpected cash flow requirements can be met by the realisation of assets.
- custody risk. The risk of losing rights to Fund assets when they are held in custody or being traded. The Sub Committee manages custody risk by the monitoring of custodian activities.
- transition risk. The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions the Sub Committee will take professional advice and consider the appointment of specialist transition managers.

Social, Environmental and Ethical Policy
The Fund has considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the principal objectives described earlier in this statement, the Sub Committee take the view that non-financial factors should not drive the investment process at the cost of financial return on the Fund. The Fund does not actively disinvest in companies for ethical, social, or environmental reasons as this may impact on Fund returns and would not accord with the principal objectives. The Sub Committee also believe that it does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, it holds a policy of non-interference with the day-to-day decision making of the investment managers.

In December 2020, the Fund signed up as a Supporter of Climate Action 100+, an initiative which supports companies that are systematically important to the global transition to net-zero emissions, in their efforts to align their business strategies with the goals of the Paris Agreement. This decision was taken to demonstrate the Fund's commitment to responsible investment, and also aligning to the Council's Climate Emergency Declaration.

In addition, in March 2022, the Pension Sub Committee agreed a Responsible Investment Beliefs Statement that further clarifies the funds position on responsible investment. Some of the key principles include:

- Any ESG integration into the Fund should be focussed on areas where it is expected to at least not reduce financial returns
- We aim to integrate RI into the investment managers' processes
- The Fund will actively seek to invest in and support opportunities arising from climate change if the returns offered as attractive.
- The Fund believes that engagement is preferred to divestment, and divestment should only be considered for unresponsive companies.

The Fund encourages the investment managers to consider the financial impact of good and poor socially responsible activities of companies as part of their due diligence. If their assessment of companies for investment indicates that a corporate governance, social, environmental or ethical factor could have an impact on that company's financial performance (positively or negatively) then the Sub Committee believe the investment managers should take account of it.

The Fund managers have their own policy on corporate governance and Socially Responsible Investment and the Fund has delegated responsibility to the managers to consider Socially Responsible Investment Issues in accordance with their policies.

In general managers do not intervene in companies' activities except where these are in unusual circumstances. The Sub Committee accepts that it is not in the economic interest of the Fund for its managers to intervene more generally.

Voting Rights

The Fund has delegated its voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. It is expected that the investment managers generally vote in support of management actively employing "Cadbury" and "Greenbury" principles and any modifying best practice, unless otherwise directed by the Sub Committee.

The fund managers are required to report voting actions on an exception's basis (i.e., excluding routine items) to the Sub Committee.

Compliance

It is a requirement of the SIP to refer to the 6 principles of investment practise set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pensions Scheme. A Guide to the Application of the Myners Principles" and to state the Fund's level of compliance with these principles. The Fund complies as follows:

Principle	Comment	Compliant
Principle 1 – Effective decision making Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice, and resources necessary to take them effectively and monitor their implementation. • Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.	• The Pensions Sub Committee (the Sub Committee) is the decision-making body for the Dumfries & Galloway Council Pension Fund. • The Sub Committee has appointed an external investment consultant to provide specific investment advice. • Advice and support for the Sub Committee is provided by officers of Dumfries & Galloway Council. • The Sub Committee focuses on setting the strategy for the Fund. • The Sub Committee receive training during meetings and at specific training sessions.	Yes

Principle 2 – Clear Objectives • Overall investment objectives should be set out for the Fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.	• The Statement of Investment Principles and the Funding Strategy Statement define the Fund's primary funding objective. • The Funding Objectives recognise the need for employer contribution rates to be kept as constant as possible and at reasonable cost to the employers and to the taxpayers. • The strategy and structure are monitored continuously and reviewed regularly using asset liability and risk modelling techniques. • Reviews of investment strategy focus on the relative split between equities, bonds, and asset classes. The Fund has a specific benchmark with individual targets for each investment mandate.	Yes
Principle 3 – Risk and liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for council taxpayers, the strength of the covenant of participating authorities, the risk of their default, and longevity risk.	• The Fund takes advice from its actuary regarding the nature of its liabilities. • Asset liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises take account of covenant strength and longevity risk. • Investment strategy is reviewed periodically and takes account of employers' ability to pay. • The Section 95 Officer is responsible for ensuring appropriate controls are in place for the Fund. Controls are subject to internal and external audit and any material issues reported to the Sub Committee.	Yes
Principle 4 – Performance assessment • Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.	• Fund and Manager performance is measured by an independent performance monitoring company. • Fund and Manager performance reports for quarter, annual and longer-term periods are considered by the Sub Committee on a regular basis. • External advisers are subject to periodic market testing. • Long term Fund performance is attributable to investment manager appointments made by the Sub Committee. The triennial actuarial valuation allows the Sub Committee to consider its funding position relative to other Local Government Pension Schemes.	Yes

Principle 5 – Responsible ownership Administering authorities should: • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of the authority's policy on responsible ownership in the Statement of Investment Principles. • Report periodically to members on the discharge of such responsibilities.	• The Fund's investment managers have adopted the Institutional Shareholders' Committee Statement of Principles. • The Fund's policy on responsible ownership is included in the Statement of Investment Principles. • Voting on underlying shareholdings is delegated to the investment managers	Yes
Principle 6 – Transparency and reporting Administering authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance, and risks, including performance against stated objectives. • Provide regular communication to members in the form they consider most appropriate.	• Trade Union and employers' representatives on the Pension Board have observer status on the Sub Committee and participate in discussion on a non-voting basis. • The Fund's policy statements, and other documentation are available on the Dumfries & Galloway Council website. • The Fund produces regular newsletters for members as well as an annual benefit statement. • A new regulatory requirement to prepare and publish a separate Fund Annual Report came into effect from financial year 2010/11.	Yes

Funding Strategy Statement

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Dumfries and Galloway Council Pension Fund ("the Fund"), which is administered by Dumfries and Galloway Council, ("the Administering Authority").
It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2021.

1.2 What is the Dumfries and Galloway Council Pension Fund?

The Fund is part of the Scottish Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole country. The Administering Authority runs the Dumfries and Galloway Council Pension Fund, in effect the LGPS for the Dumfries and Galloway area, to make sure it:

- receives the proper number of contributions from employees and employers, and any transfer payments.
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the various LGPS Regulations applicable to Scotland. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations applicable in Scotland.
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report.
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e., a current or former employee, or a dependant: The Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full.
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund.
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money.
- a Council Taxpayer: you will want to know how your council seeks to strike the balance above, and to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,
B. who is responsible for what?
C. what issues the Fund needs to monitor, and how it manages its risks,
D. some more details about the actuarial calculations required,
E. the assumptions which the Fund actuary currently makes about the future,
F. a glossary explaining the technical terms occasionally used here.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e., the ideal amount of assets it should hold to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However, over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst most members will be local authority employees (and ex-employees), most participating employers are those providing services in place of (or alongside) local authority services: colleges, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:
Scheduled bodies - councils, and other specified employers such as further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

Other employers are able to participate in the Fund via an admission agreement and are referred to as 'admission bodies' These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities; TABs will generally be contractors. The Fund can set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa)

For some employers it may be agreed to pool contributions, see 3.4.
Any costs of non-ill-health early retirements must be paid by the employer, see 3.6.
Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer-term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels,
- Contributions which colleges and universities pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council taxpayers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to

which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments over the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up to date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal two Court of Appeal judgements in December 2018, collectively referred to as the 'McCloud' judgement. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2015 in the case of the LGPS in Scotland) were unlawful on the grounds of age discrimination. The exact details of the solution to the McCloud judgement have yet to be confirmed. A consultation on this closed on 23 October 2020 and is currently under consideration by the Scottish Public Pensions Agency (SPPA).

In May 2020, the SPPA set out its expectations for how funds should allow for this uncertainty in the benefit structure as part of their 2020 valuations. The Fund Actuary has included an allowance in the Fund's liabilities in line with SPPA's instructions.

2.8 What approach has the Fund taken to dealing with uncertainty arising from the paused Cost Cap mechanism and its potential impact on the LGPS benefit structure?

As part of the public sector pension scheme reforms in the first half of the 2010s, a mechanism was put in place to control future pension costs within an agreed 'cost envelope'. The mechanism is symmetrical in its design – following a Cost Cap valuation carried out by the Government Actuary's Department (GAD), if the scheme is calculated to have a lower/(higher) than intended cost to employers, then action will be taken: improvements/(reductions) in future benefit accrual and/or increases/(reductions) in employee contribution rates. The Cost Cap calculations are done in a different way by the Government Actuary's Department using different assumptions to the local valuation calculations, and exclude certain factors which the local valuation includes. The Cost Cap therefore does not have a direct impact on your contributions, but will indirectly affect contributions by leading to changes in scheme benefits or employee contributions.

The first Cost Cap mechanism for LGPS Scotland was due as at 31 March 2017, but has been put on hold until the McCloud judgement is resolved. There is currently no information available about the results of the 2017 Cost Cap valuation and whether a change in the benefit structure and/or employee contribution rates from 1 April 2020 may occur.

The Fund has considered how it will allow for this uncertainty in the approach to setting employer contribution rates at the 2020 valuation, and has decided to make no allowance or adjustment to contribution rates and liabilities until more information on the Cost Cap results is available. Once the outcome of the Cost Cap valuation case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate. In addition, adjusted rates may have to include an element of back payment as benefit improvements will apply for service from 1 April 2020.

The Fund reserves the right to increase rates prior to the next valuation in 2023 if deemed necessary.

2.9 **When will the next actuarial valuation be?**
On 21 January 2020 SPPA issued a consultation seeking views on proposals to amend the LGPS valuation cycle in Scotland from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle. This consultation closed on 9 March 2020 and is currently under consideration by SPPA. At time of writing, we understand that the next valuation is likely to be in 2023.

2.10 What approach has the Fund taken to dealing with uncertainty arising from the Goodwin court case and its potential impact on the LGPS benefit structure?
The Goodwin tribunal was raised in the Teachers' scheme. It claimed members, or their survivors, were discriminated against due to their sexual orientation. The claim was because the Teachers' scheme provides a survivor's pension which is less favourable for a widower or surviving male partner, than for a widow or surviving female partner of a female scheme member. On 30 June 2020, the Tribunal found in favour of the claimant and agreed there was discrimination. This finding and remedy is expected to apply across all public service pension schemes, including the LGPS, however this is not certain and the details are not yet known.

The impact, if any, of the Goodwin case on Fund liabilities is expected to be small and will largely be an administrative issue. In the absence of a resolution or any guidance to this case, no allowance has been made for this within the 2020 formal valuation.

3 Calculating contributions for individual Employers

3.1 General comments
A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. The Fund's three-step process identifies the key issues:
1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore, the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case-by-case basis for specific employers.

3.2 The effect of paying lower contributions
In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three-step process above. At their absolute discretion, the Administering Authority may:
- extend the time horizon for targeting full funding.
- adjust the required probability of meeting the funding target.

- permit an employer to participate in the Fund's stabilisation mechanisms.
- permit extended phasing in of contribution rises or reductions.
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long-term liability (i.e., the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions.
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies**		**Transferee Admission Bodies**
Sub-type	**Council Pool**	**Colleges**	**Police, Fire**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "low risk exit basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No Note (b)	No Note (b)	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	20 years	20 years	20 years or salary-weighted average future working lifetime	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at Primary rate	Contributions kept at Primary rate	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	66%	70%	66%	70%	75%	66%
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	Up to 3 years at the discretion of the Fund depending on remaining contract period
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	n/a	Note (g)		Notes (g) & (h)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (i).			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (i).		Participation is assumed to expire at the end of the contract. Exit debt/credit (if any) calculated using a basis consistent with that used to allocate assets to the employer on joining the Fund. Letting employer will be liable for future deficits and contributions arising. See Note (i) for further details

Note (a) (Low risk exit basis for CABs closed to new entrants)

In the circumstances where:
- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission body is closed to future new entrants (either explicitly, or implicitly due to lack of employees joining the Fund in recent times),

the Administering Authority may set a higher funding target (e.g. the “low risk exit basis” as per E3), in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers’ rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised” (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:
- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and.
- there are no material events which cause the employer to become ineligible, e.g., significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive asset liability modelling carried out for the 2020 valuation exercise (see Section 4), the Council’s rate will increase to 22% of pay from 1 April 2021 and remain at that level until 31 March 2024. After this time, the stabilisation parameters in the table below will take effect.

Type of employer	Council Pool
Max contribution increase per year	+0.5% of pay
Max contributions decrease per year	-1.0% of pay

The stabilisation criteria and limits will be reviewed at the next formal valuation, to take effect from 1 April 2024. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, based on membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2021 for the 2020 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations but would reserve the right to propose alternative time horizons, for example where an employer closed to new entrants over the inter-valuation period.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three-year period until the next valuation is likely to be expressed in monetary terms, rather than as a percentage of payroll.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers.
- the employer does not have tax-raising powers.
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted which will increase the funding target and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Admission Bodies)

All new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity, or a bond, as set out in the LGPS Regulations. The security is required to cover some or all the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract.
- allowance for the risk of asset underperformance.
- allowance for the risk of a fall in gilt yields.
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed on an annual basis. See also Note (h) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, or the Scottish or UK Government, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (h) (New Transferee Admission Bodies)

A new TAB usually joins the Fund because of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (i).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. There are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling
Under this option, the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks
Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed
Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit. This is also referred to as a “pass-through” arrangement.

The Administering Authority is willing to administer any of the above options if the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to its own decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (i) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case).
- The insolvency, winding up or liquidation of the Admission Body.

- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund.
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus following the Local Government Pension Scheme (Scotland) Regulations 2018 which came into effect on 1 May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (h) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2015 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2015) are confirmed, the Fund's policy is that the actuary will value the employer's liabilities in line with instructions SPPA set out for the 2020 formal valuations.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

Community Admission Bodies

For Community Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:
Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit/surplus will normally be calculated using a "low risk cessation basis", which is more prudent than the ongoing valuation basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required;

(a) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort (i.e. will only step in to pay for employer liabilities if the employer is unable to), and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the Fund's ongoing valuation basis; or

(b) Again, depending on the nature of the guarantee, it may be possible to simply pool the former Admission Body's liabilities and assets with the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible, then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.
As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the low risk exit basis. Furthermore, the Fund reserves the right to revert to a "low risk cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases.

Transferee Admission Bodies

For Transferee Admission Bodies the cessation liabilities and final deficit/surplus will normally be calculated using a methodology that is consistent with that used to allocate assets to the employer on joining the Fund.

For Transferee Admission Bodies whose participation is voluntarily ended by themselves, the cessation debt/credit will be calculated using the "low risk cessation basis" described under (a) above.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when individual members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2021 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However, there may be exceptions for specialist or independent schools.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may consider factors such as:

- the extent of the employer's deficit.
- the amount and quality of the security offered.
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2009 and April 2015). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 5 years
Community Admission Bodies	- up to 3 years
Transferee Admission Bodies	- payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is terminated.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (i)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations.

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- Where the entire membership of the employer (i.e., active, deferred and pensioner members) transfers out, the Fund will not pay a bulk transfer greater than the asset share of the transferring employer.
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles, which is available to members and employers.

The investment strategy is set for the long-term but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the Government (see Appendix A1).

In the short term – such as the assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value. It reports this to the regular Pensions Committee meetings, and to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Scottish Public Pensions Agency (SPPA) acting on behalf of Scottish Ministers, on each of the LGPS Funds in Scotland. This report will cover whether, for each Fund, the rate of employer contributions is set at an appropriate level to ensure both the solvency and the long-term cost efficiency of the Fund.

This additional SPPA oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund can realise contingent assets should future circumstances require, to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, SPPA may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable is sufficient to cover the cost of current benefit accrual and the interest cost on any deficit.
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy; and
3. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

SPPA may assess and compare these and other metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The purpose of the FSS is:

- "to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward.
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities."

These objectives are desirable individually but may be mutually conflicting.

The requirement to maintain and publish an FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority must have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on 5 February 2021 for comment.
b) Comments were requested within 30 days.
c) Following the end of the consultation period the FSS was updated where required and then approved on 22 June 2021

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website www.dumgal.gov.uk
- A copy sent by e-mail to each participating employer in the Fund.
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.9). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three-year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Sub Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a few separate statements published by the Fund including the Statement of Investment Principles, Administration Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.dumgal.gov.uk

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should: -

- operate the Fund as per the LGPS Regulations.
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer.
- collect employer and employee contributions, and investment income and other amounts due to the Fund.
- ensure that cash is available to meet benefit payments as and when they fall due.
- pay from the Fund the relevant benefits and entitlements that are due.
- invest surplus monies (i.e., contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations.
- communicate appropriately with employers so that they fully understand their obligations to the Fund.
- take appropriate measures to safeguard the Fund against the consequences of employer default.
- manage the valuation process in consultation with the Fund's actuary.
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP, after consultation.
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP as necessary and appropriate.

B2 The Individual Employer should: -

- deduct contributions from employees' pay correctly.
- pay all contributions, including their own as determined by the actuary, promptly by the due date.
- have a policy and exercise discretions within the regulatory framework.
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects, or membership, which could affect future funding.

B3 The Fund Actuary should: -

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately.
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these).
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary.
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties: -

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS.
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP.
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor, and advise on fraud detection, and sign off annual reports and financial statements as required.
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund.
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures; and
- the SPPA/Scottish Ministers (assisted by the Government Actuary's Department) and the Scottish LGPS Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial.
- Demographic.
- regulatory; and
- governance.

C2 Financial risks

Risk	**Summary of Control Mechanisms**
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested based on specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation monitoring of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance; reviewed at least every three years.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer-term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk.

Risk	Summary of Control Mechanisms
	Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non-ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2017 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any SPPA/Scottish Ministers intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on proposed valuation approach relative to anticipated Section 13 analysis.

Changes by Government to employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	**Summary of Control Mechanisms**
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the Rates and Adjustments Certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it were left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (g) and (i) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The Calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus
b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to SPPA (see section 5), is calculated in effect as the sum of all the individual employer rates. SPPA currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (more than members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the Primary rate applicable to the pool. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details), and
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.
The approach includes expenses of administration to the extent that they are borne by the Fund and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below);
- within the determined time horizon (see 3.3 Note (c) for further details); and
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits
2. different liability profiles of employers (e.g., mix of members by age, gender, service vs. salary).
3. the effect of any differences in the funding target, i.e., the valuation basis used to value the employer's liabilities.
4. any different time horizons.
5. the difference between actual and assumed rises in pensionable pay.
6. the difference between actual and assumed increases to pensions in payment and deferred pensions.
7. the difference between actual and assumed retirements on grounds of ill-health from active status.
8. the difference between actual and assumed amounts of pension ceasing on death.
9. the additional costs of any non-ill-health retirements relative to any extra payments made. and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2017 the Administering Authority used the ‘analysis of surplus’ approach to apportion the Fund’s assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer’s assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund’s assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers’ asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer’s asset share to the receiving employer’s asset share. This sum is equal to the member’s Cash Equivalent Transfer Value (CETV).

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

For the 2020 valuation, the actuary has projected forward from 30 September 2020 when setting contribution rates for employers, except short-term employers where the position at 31 March has been used as the basis for the secondary rate. This is to avoid long-term funding strategies being unduly influenced by the extreme short-term market conditions that were in force at 31 March 2020 due to COVID.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term or poses an elevated risk to the Fund, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are used in the funding target?

At the end of an employer’s funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are future inflation expectations and the prevailing risk-free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

The salary increase assumption at the 2020 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2025, followed by
2. 1% above the Consumer Price Index (CPI) p.a. thereafter.

This gives a single "blended" assumption of CPI plus 0.8%. This is consistent with the previous valuation.

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At the previous valuation we assumed CPI would be 1.0% lower than RPI on overage. At the 2020 valuation, we have assumed that CPI will be 0.9% per annum lower than RPI on average, which will serve to increase the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2019 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.5% per annum minimum underpin. This results in slightly lower life expectancies than was assumed at the 2017 valuation.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present-day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, i.e., a promise by the Government to pay interest and capital as per the terms of that gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferred (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, some universities, police, and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g., teachers, police, and fire officers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, and usually individual employer Primary and Secondary contribution rates. This is normally carried out in full every three years (last done as at 31 March 2017) but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Independent Auditors' Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

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

In our opinion the accompanying financial statements:

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

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is six years. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.
These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, we report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

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

Responsibilities of the Head of Finance and Procurement and The Dumfries and Galloway Council for the financial statements

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

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

The Dumfries and Galloway Council is responsible for overseeing the financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

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

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

Reporting on other requirements

Other information

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

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

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

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

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

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Independent Auditors' Report

Use of our report

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

[Signature]

Barrie Morris, (for and on behalf of Grant Thornton UK LLP),
2 Glass Wharf,
Bristol,
BS2 0EL
Date: 29 November 2022

Fund Account

2020/21 £000		2021/22 £000	Note
	Dealings with members, employers and others directly involved in the scheme		
(30,985)	Contributions	(33,244)	7
(277)	Transfers in from other pension funds	(306)	8
(31,262)		**(33,550)**	
33,796	Benefits	35,202	9
4,111	Payments to and on account of leavers	1,319	10
37,907		**36,521**	
6,645	**Net (additions) / withdrawals from dealing with Members**	**2,971**	
2,690	Management expenses	2,872	11
9,335	**Net (additions) / withdrawals including fund management expenses**	**5,843**	
	Return on investments		
(5,485)	Investment income	(6,468)	12
(181,675)	(Profit) and losses on disposal of investments and changes in the market value of investments	(93,950)	14(a)
(187,160)	**Net return on investments**	**(100,418)**	
(177,825)	**Net (increase)/ decrease in the net assets available for benefits during the year**	**(94,575)**	
(825,521)	**Opening net assets of the scheme**	**(1,003,346)**	
(1,003,346)	**Closing net assets of the scheme**	**(1,097,921)**	

Net Assets Statement for the year ended 31 March 2022.

2020/21 £000		2021/22 £000	Note
1,000,840	Investment assets	1,096,388	14
0	Cash deposits	0	14
1,000,840	**Total investment assets**	1,096,388	
0	Investment liabilities	0	14
1,000,840	**Total net investments**	1,096,388	
3,090	Current assets	5,543	20
(584)	Current liabilities	(4,010)	21
1,003,346	**Net assets of the fund available to fund benefits at the period end**	**1,097,921**	

The fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial position of the promised retirement benefits is disclosed at Note 19.

The audited accounts were issued on 29 November 2022.

Paul Garrett
Head of Finance & Procurement

Notes to the Accounts

1. Description of the Fund
The Dumfries & Galloway Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Dumfries & Galloway Council.

The following description of the Pension Fund is a summary.

a) General
The LGPS scheme is governed by the Public Service Pensions Act 2013. The fund is administered by the Council in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended)
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010
- The Local Government Pension Scheme (Governance)(Scotland) Regulations 2015

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

b) Membership
Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include:

- Scheduled Bodies – which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund. There are currently 4 in the Fund:

  - Dumfries and Galloway College,
  - Scottish Police Service Authority,
  - Scottish Police Authority,
  - Scottish Fire & Rescue Service.

- Admitted Bodies – which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. There are currently 6 in the Fund:

  - The Crichton Trust,
  - Park Homes,
  - Amey plc,
  - Scottish Rural University and Colleges (Barony College).
  - Greystone Rovers
  - Sodexo

One of the Admitted Bodies, Dumfries & Galloway Housing Partnership, transferred their members to Strathclyde Pension Fund on 28 February 2022. A final transfer of Assets and Liabilities is still be agreed.

Membership Details as at 31 March 2022

31 March 2021			31 March 2022	
		Number of employers with active members		
		Number of active members in scheme:		
6,119		Dumfries and Galloway Council	6,402	
525		Other employers	420	
	6,644	**Total**		**6,822**
		Number of pensioners / dependants:		
3,688		Dumfries and Galloway Council	3,950	
1,544		Other employers	1,451	
	5,232	**Total**		**5,401**
		Number of deferred pensioners:		
4,332		Dumfries and Galloway Council	4,657	
746		Other employers	745	
	5,078	**Total**		**5,402**
	16,954	**Scheme total**		**17,625**

	Number of Contributors	Number of Pensioners	Number of Deferred Pensioners
Dumfries and Galloway Council	6,402	3,950	4,657
Dumfries and Galloway College	177	129	271
Scottish Police Service Authority	0	8	7
Scottish Police Authority	147	79	51
Scottish Fire & Rescue Service	16	14	13
The Crichton Trust	48	21	86
Park Homes	2	1	0
Amey plc	15	15	15
Scottish Rural University and Colleges (Barony)	10	40	67
Greystone	2	0	0
Sodexo	3	1	1
Renewi plc	0	10	5
Lovell plc	0	10	4
Former Dumfries & Galloway Arts Association	0	4	8
Former Solway Heritage	0	5	13
Former Annandale & Eskdale Sports & Leisure Trust	0	3	12
Former Connaught plc	0	11	31
Former Dumfries & Galloway Regional Council	0	727	96
Former Annandale & Eskdale District Council	0	71	9
Former Nithsdale District Council	0	109	19
Former Stewartry District Council	0	30	8
Former Wigtown District Council	0	58	7
Crichton Foundation	0	0	3
Community Integrated Care	0	98	17
Former Solway River Purification Board	0	2	1
Former Dumfries Town Centre Management	0	5	1
	6,822	**5,401**	**5,402**

c) Funding
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Pension Fund in accordance with the LGPS (Scotland) Regulations 2018 and range from 5.5% to 12% of pensionable pay for the financial year ending 31 March 2022.

Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The actuarial valuation as at 31 March 2020 set these employers' contribution rates which range from 22.0% to 36.0% of pensionable pay in 2021/22. Additional monetary payments towards deficit recovery were also set.

The most current valuation took place as at 31 March 2020. Employers' contributions set in the March 2020 valuation came into effect on 1 April 2021.

d) Benefits
Prior to 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as summarised below:

	Service before 1 April 2009	**Service after 31 March 2009 until 31 March 2015**	**From 1 April 2015**
Pension	Each year worked is worth 1/80th x final pensionable salary.	Each year worked is worth 1/60th x final pensionable salary.	Career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Price Index.
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

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2. Basis of Preparation
The Statement of Accounts summarise the Pension Fund's transactions for the 2021/22 financial year and its position at the year end of 31 March 2022. The Pension Fund is required to prepare an Annual Report by the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (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 2021/22 - 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.

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3. Summary of Significant Accounting Policies

a) Accruals of Income & Expenditure

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

b) Contributions

Normal contributions, both from the members and from the employers, are accounted for on an accrual basis at the percentage rate recommended by the Pension Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain costs are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as current financial assets. Amounts not due until future years are classed as long-term financial assets.

c) 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 the LGPS Regulations. Individual transfers in/out are accounted for 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

d) Investment Income

i) Interest income

Interest is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

e) Benefits

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

f) 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.

g) Management Expenses

Administration Expenses

All administration expenses are accounted for on an accrual's basis. Central Support Costs from Dumfries & Galloway Council have been recharged to the Fund based on time spent by staff on the service.

Investment Management Expenses

All investment management expenses are accounted for on an accrual's basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Oversight and Governance Costs

All oversight and governance costs are accounted for on an accrual's basis.

h) 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 in the Net Asset Statement 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.

The values of investments shown in the net assets statement are determined as follows:

- Market-quoted investments – the value of an investment for which there is a readily available market price is determined by the bid price on the final day of the accounting period.
- Fixed interest securities – are recorded at net market value based on their current yields.
- Unquoted investments – directly held investments include investments in limited partnerships, shares in unlisted companies, trusts, and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Pooled investment vehicles - these are valued at closing bid price if both bid and offer prices are published; or if single priced, at closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income, which is reinvested in the Pension Fund, net of applicable withholding tax.
- Other financial assets such as cash and debtors are held at amortised cost.

i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the market rates at the date of transaction. End-of-year market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchase and sales outstanding at the end of the reporting period.

j) Derivatives

The Fund may use derivative financial instruments to manage its exposure to specific risks arising from its investment activities, although it did not hold any as at 31 March 2022 (2020/21 nil). The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value. The value of future contracts is determined using exchange prices at the reporting date. Amounts that are due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of the over the counter contract options is based on quotations

from an independent broker. Where this is not available, the value is provided by the investment manager using generally accepted option-pricing models with independent market data.
The future value of forward currency contracts is based on market forward exchange rates at the year- end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) Cash and Cash Equivalents
Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial Liabilities
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement 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.

m) Actuarial Present Value of Promised Retirement Benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of note to the net asset statement (Note 19).

n) Additional Voluntary Contributions
Dumfries & Galloway Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Pension Fund has appointed Standard Life and Aegon as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (SSI 2010/233) but are disclosed as a note only (Note 22).

o) Changes in Accounting Policies and Prior Period Adjustments
Changes in accounting policies are only made when required by proper accounting practice or the change provides more reliable or relevant information about the effects of transactions, other events and conditions on the Pension Fund's financial position or financial performance. Where a change is made it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior periods as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

p) New Standards Issued but not yet Adopted
The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2021/22 Code:

• Interest Rate Benchmark Reform: Amendments to IFRS9, IAS39 and IFRS7; and
• Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16.

The code requires implementation from 1 April 2022 and there is therefore no impact on the 2021/22 Annual Accounts. Overall, these new or amended standards are not expected to have a significant impact on the Annual Accounts

4. Critical Judgements in Applying Accounting Policies
Pension Fund Liability
The pension fund liability is calculated every three years by the appointed actuary (currently Hymans Robertson), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. 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 the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made considering historical experience, current trends, and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2022 for which there is a significant risk. of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate, salary growth, mortality rates and the expected return n pension fund assets. The Funds appointed actuary is engaged to provide expert advice about the assumptions applied. The net pension fund liability is re calculated every 3 years by the actuary. The methodology used is in line with accepted guidelines. The assumptions agreed are detailed in note 18.	The effect on the net pension liability of changes in assumptions are as follows: • 0.1% p.a. increase in the pension increase rate would result in an increase of approx. £27M to liabilities (2%) • 0.1% p.a. increase in salary rate would result in an increase of approx. £3M to liabilities (0%) • 0.1% p.a decrease in the discount rate assumption would result in an increase of approx. £23M to liabilities (2%). • 1 year increase in life expectancy would result in an increase in liabilities of £56M (4%)
Pooled Property Funds (note 14)	Valuation techniques are used to determine the carrying amount of pooled property funds. Where possible these techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The total pooled property investments in the financial statements are £105.8m (9.8% of fund) based on the valuations from the Fund Managers. While the Fund is satisfied that this reflects the appropriate value of investments as at 31 March 2022, changes in underlying assumptions could impact the valuation over the next 12 months.
Level 3 Investments	Level 3 investments have at least one input that could have a significant effect on the instrument's valuation that is not based on observable market data. Changes in the valuation assumptions used could effect the NBV of the Investments.	The Blackrock SAIF has been determined as a level 3 investment. In the financial statements are £62.4M (5.7% of fund) based on the valuations from the Fund Managers. While the Fund is satisfied that this reflects the appropriate value of investments as at 31 March 2022, changes in underlying assumptions could impact the valuation over the next 12 months.

6. Events After the Reporting Date
Events after the Net Asset Statement date are those events which occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. The Statement of Accounts is adjusted for events which provide evidence of conditions that existed at the end of the reporting period. The Statement of Accounts is not adjusted for events which are indicative of conditions which arose after the end of the reporting period. However, where such events would have a material effect, a disclosure is made in the Notes to the Accounts of the nature of the event and the estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

The audited Statement of Accounts were issued by the Head of Finance and Procurement on 29 November 2022. Events taking place after this date are not reflected in the financial statements or notes. There have been no material events since the date of the Net Assets Statement which have required the figures in the financial statements and notes to be adjusted.

7. Contributions Receivable

By category

2020/21 £000		2021/22 £000
6,492	**Employees' contributions**	**7,050**
	Employers' contributions	
23,283	Employers' normal contributions	25,427
18	Employers' deficit recovery contributions	54
1,192	Employers' augmentation contributions	713
24,493		**26,194**
30,985	**Total**	**33,244**

By authority

2020/21 £000		2021/22 £000
26,617	Dumfries and Galloway Council	29,103
2,265	Scheduled Bodies	2,722
2,103	Admitted Bodies	1,419
30,985	**Total**	**33,244**

The employer's augmentation contributions relate to Strain on the Fund payments made by employers to cover costs of early retirements.

8. Transfers in from Other Pension Funds
The total transfers received during the year are as follows:

2020/21 £000		2021/22 £000
277	Individual transfers	**306**

9. Benefits Payable

By Category

2020/21 £000		2021/22 £000
27,504	Pensions	28,116
5,250	Commutation and lump sum retirement benefits	6,267
1,042	Lump sum death benefits	819
33,796	**Total**	**35,202**

By authority

2020/21 £000		2021/22 £000
27,660	Dumfries and Galloway Council	29,419
3,060	Scheduled Bodies	2,970
3,076	Admitted Bodies	2,813
33,796	**Total**	**35,202**

10. Payments to And on Account of Leavers

2020/21 £000		2021/22 £000
72	Refunds to members leaving service	55
4,039	Individual transfers	1,264
4,111	**Total**	**1,319**

The decrease in transfers from the previous year is due to the consolidation of Visit Scotland assets into the Lothian Pension Fund. Dumfries & Galloway Housing Partnership, transferred their members to Strathclyde Pension Fund on 28 February 2022. A final transfer of Assets and Liabilities is still be agreed.

11. Management Expenses

2020/21 £000		2021/22 £000
	Administrative costs	
297	• Central administration charge	304
151	• System costs	309
22	• Other expenses	42
470		**655**
	Investment management expenses	
138	• External management fees - –invoiced	162
1,900	• External management fees – deducted from capital	1,893
2,038		**2,055**
	Oversight and governance costs	
56	• Central administration charge	58
41	• Actuarial fees	3
36	• Investment consultancy fees	53
21	• Performance measurement	20
26	• External Audit fees	27
2	• Other expenses	1
182		**162**
2,690	**Total**	**2,872**

12. Investment Income

2020/21 £000		2021/22 £000
214	Pooled investments – unit trusts and other managed funds	1,809
4,320	Pooled property investments	3,957
951	Diversified growth	700
0	Interest on cash deposits	2
5,485	**Total**	**6,468**

13. External Auditors Remuneration

In 2021/22 the agreed audit fee for the year was £26,950 (2020/21 £26,210). There were no other fees during 2021/22 paid to Grant Thornton, the Pension Fund's auditor.

14. Investments

2020/21 £000		2021/22 £000
	Investment assets	
775,185	Pooled investments	884,431
88,157	Pooled property investments	105,763
137,180	Diversified growth	105,877
318	Investment income due	317
1,000,840	**Total investment assets**	**1,096,388**
	Investment liabilities	
0	**Total investment liabilities**	**0**
1,000,840	**Net investment assets**	**1,096,388**

14(a). Reconciliation of Movements in Investments

	Market value at 1 April 2021 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market value at 31 March 2022 £000
Pooled investments	775,185	35,376	0	73,870	884,431
Pooled property investments	88,157	3,092	0	14,514	105,763
Diversified growth	137,180	131	(37,000)	5,566	105,877
	1,000,522	**38,599**	**(37,000)**	**93,950**	**1,096,071**
Other investment balances:					
Cash deposits	**0**				**0**
Amounts receivable for sale of investments	**0**				**0**
Investment income due	**318**				**317**
Amounts payable for purchase of investments	**0**				**0**
Net investment assets	**1,000,840**				**1,096,388**

	Market value at 1 April 2020	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2021
	£000	£000	£000	£000	£000
Pooled investments	592,514	23,531	0	159,140	775,185
Pooled property investments	86,721	2,838	0	(1,402)	88,157
Diversified growth	141,047	196	(28,000)	23,937	137,180
	820,282	**26,565**	**(28,000)**	**181,675**	**1,000,522**
Other investment balances:					
Cash deposits	**0**				**0**
Amounts receivable for sale of investments	**0**				**0**
Investment income due	**947**				**318**
Amounts payable for purchase of investments	**0**				**0**
Net investment assets	**821,229**				**1,000,840**

14(b). Analysis of Investments

2020/21(restated)		2021/22
£000		£000
	Pooled funds – additional analysis	
	UK	
152,957	Fixed income unit trusts	147,399
170,394	Unit trusts	192,895
	Overseas	
17,199	Fixed income	16,496
408,610	Unit trusts	465,160
	Other	
26,025	Strategic Alternative Income	62,481
775,185		**884,431**
88,157	Pooled property investments	105,763
137,180	Diversified growth	105,877
225,337		**211,640**
318	Investment income due	**317**
1,000,840	**Total investment assets**	**1,096,388**
	Investment liabilities	
0	Amounts payable for purchases	0
0	**Total investment liabilities**	**0**
1,000,840	**Net investment assets**	**1,096,388**

14(c). Investments Analysed by Fund Manager

Market Value 31 March 2021			Market Value 31 March 2022	
£000	%		£000	%
749,159	74.9%	Legal & General Investment Management	821,950	75.0%
137,180	13.7%	Baillie Gifford	105,877	9.7%
63	0.0%	RREEF	0	0.0%
31,103	3.1%	Lothbury Investment Management	36,198	3.3%
30,779	3.1%	Columbia Threadneedle Asset Management	37,715	3.4%
52,556	5.3%	BlackRock Investment Management (UK)	94,648	8.6%
1,000,840			**1,096,388**	

The Fund holds the following investments in pooled funds which are more than 5% of the total value of the net assets of the Fund.

Market Value 31 March 2021 £000	%	Security	Market Value 31 March 2022 £000	%
170,394	17.0%	Legal & General - UK Equity Index	192,895	17.6%
210,225	21.0%	Legal & General - All World Equity Index	236,854	21.6%
106,217	10.6%	Legal & General - UK Corporate Bond Index	98,394	9.0%
198,384	19.8%	Legal & General - RAFI	228,306	20.8%
137,181	13.7%	Baillie Gifford – Diversified Growth Fund	105,877	9.8%
26,025	2.6%	BlackRock – Strategic Alternative Income Fund	62,481	5.8%

15.Fair Value

15(a). 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	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Strategic Alternative Income Fund	Level 3	Closing NAV supplied by Fund Manager	Net Asset Value (NAV) based pricing set on a forward pricing basis, cash flow modelling and discount rates	Changes in cash flow modelling and assumptions used
Pooled investments – closed property funds	Level 3	Valued at year end in accordance with the RICS Valuation Standards	Existing lease terms and rentals. Independent market research	Significant changes in the rental growth, vacancy levels, general changes in the market conditions

Sensitivity of assets valued at level 3

Having considered historical data and current market trends, and consulted with investment managers, the fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Assessed valuation range (+/-) %	Value at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Strategic Alternative Income	3.1%	62,481	64,412	60,550

15(b). Valuation of Financial Instruments Carried at Fair Value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classed as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2022		Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss					
Pooled	Fixed income	147,399			147,399
	Unit trusts	192,895			192,895
	Overseas fixed income		16,496		16,496
	Overseas unit trusts		465,160		465,160
	Property		105,763	0	105,763
	Strategic Alternative Income			62,481	62,481
	Diversified Growth		105,877		105,877
Total financial assets		**340,294**	**693,296**	**62,481**	**1,096,071**
Financial liabilities at fair value through profit and loss		0	0	0	0
Net investment assets		**340,294**	**693,296**	**62,481**	**1,096,071**

Values at 31 March 2021 (restated)		Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss					
Pooled	Fixed income	152,957			152,957
	Unit trusts	170,394			170,394
	Overseas fixed income		17,199		17,199
	Overseas unit trusts		408,610		408,610
	Property		88,094	63	88,157
	Strategic Alternative Income			26,025	26,025
	Diversified Growth		137,180		137,180
Total financial assets		**323,351**	**651,083**	**26,088**	**1,000,522**
Financial liabilities at fair value through profit and loss		0	0	0	0
Net investment assets		**323,351**	**651,083**	**26,088**	**1,000,522**

15(c). Reconciliation of Fair Value Measurements Within Level 3

	Market value at 1 April 2021 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market value at 31 March 2022 £000
Pooled Property	63	0	0	(63)	0
Strategic Alternative Income	26,025	35,759	0	697	62,481

16. Financial Instruments

16(a). Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analysis the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Asset Statement heading. No financial assets were reclassified during the accounting period.

Fair Value through Profit and Loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Fair Value through Profit and Loss	Financial assets at amortised cost	Financial liabilities at amortised cost
	31 March 2021				31 March 2022	
£000	£000	£000		£000	£000	£000
			Financial assets			
775,185			Pooled investments	884,431		
88,157			Pooled property investments	105,763		
137,180			Diversified growth fund	105,877		
	2,306		Cash		5,119	
318			Other investment balances	317		
	784		Debtors		424	
1,000,840	**3,090**	**0**		**1,096,388**	**5,543**	**0**
			Financial liabilities			
		(584)	Creditors			(4,010)
0	**0**	**(584)**		**0**	**0**	**(4,010)**
1,000,840	**3,090**	**(584)**		**1,096,388**	**5,543**	**(4,010)**

16(b). Net Gains and Losses on Financial Instruments

2020/21 £000		2021/22 £000
	Financial assets	
181,675	Fair value through profit and loss	93,950
0	Loans and receivables	0
	Financial liabilities	
0	Fair value through profit and loss	0
0	Loans and receivables	0
181,675	**Total**	**93,950**

17. Nature and Extent of Risks Arising from Financial Instruments Risk and Risk Management

The Fund's primary long-term risk is that the Fund's 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 to market risk (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 Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for managing the Fund's risk rests with the Pension Fund Sub Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed to reflect changes in activity and in market conditions.

(a) Market Risk

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

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its Investment Consultants undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels.
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments although none were held at 31 March 2022. It is also possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk. Again, none were held at 31 March 2022.

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. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

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 expected investment return movement during the financial year, in consultation with the Fund's investment manages and advisors, the Council has determined that the following movements are reasonably possible for the 2022/23 reporting period.

Asset Type	Potential Market Movements (+/-)	
	2020/21	2021/22
	%	%
UK fixed income unit trusts	8.77	9.04
Overseas fixed income unit trusts	12.47	11.96
UK pooled funds	13.71	12.81
Overseas pooled funds	12.40	11.89
Pooled property investments	5.00	5.00
Strategic Alternative Income	4.00	3.10
Diversified growth	10.00	10.00
Cash	0.0	0.0

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows: (the prior year comparator is shown below).

	Value as at 31 March 2022 £000	Potential Market Movement £000	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	5,119	0	5,119	5,119
Investment portfolio assets:				
UK fixed income unit trusts	147,399	13,325	160,724	134,074
Overseas fixed income unit trusts	16,496	1,973	18,469	14,523
UK pooled funds	192,895	24,710	217,605	168,185
Overseas pooled funds	465,160	55,308	520,468	409,852
Pooled property investments	105,763	5,288	111,051	100,475
Strategic Alternative Income	62,481	1,931	64,412	60,550
Diversified growth	105,877	10,588	116,465	95,289
Investment Income due	317	0	317	317
Total	**1,101,507**	**113,123**	**1,214,630**	**988,384**

	Value as at 31 March 2021 (restated) £000	Potential Market Movement £000	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	2,306	0	2,306	2,306
Investment portfolio assets:				
UK fixed income unit trusts	152,957	13,414	166,371	139,543
Overseas fixed income unit trusts	17,198	2,145	19,343	15,053
UK pooled funds	170,394	23,361	193,755	147,033
Overseas pooled funds	408,610	50,668	459,278	357,942
Pooled property investments	88,157	4,408	92,565	83,749
Diversified growth	137,181	13,718	150,899	123,463
Strategic Alternative Income	26,025	1,041	27,066	24,984
Investment Income due	318	0	318	318
Total	**1,003,146**	**108,755**	**1,111,901**	**894,391**

Interest Rate Risk
The Fund invests in financial assets for the primary purpose of obtaining a return on investments. 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 interest rates. The Fund's interest rate risk is routinely monitored by the Council and its Investment Consultants, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.
The Fund's direct exposure to interest rate movements is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Interest Rate Risk – Sensitivity Analysis
The Council 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. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows 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 +/- 1% change in interest rates:

Assets Exposed to Interest Rate Risk	Value as at 31 March 2022 £000	Potential Movement On 1% Change in Interest Rates £000	Value on Increase £000	Value on Decrease £000
Cash balances	5,119	0	5,119	5,119
Fixed income securities	147,399	1,474	148,873	145,925
Total	**152,518**	**1,474**	**153,992**	**151,044**

Assets Exposed to Interest Rate Risk (restated)	Value as at 31 March 2021	Potential Movement On 1% Change in Interest Rates	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and cash equivalents				
Cash balances	2,306	0	2,306	2,306
Fixed income securities	152,956	1,530	154,486	151,426
Total	**155,262**	**1,530**	**156,792**	**153,732**

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. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest received on those balances. A 1% increase in interest rates will increase the interest income received on those balances by £51,190.

Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

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 holds monetary assets denominated in currencies other than £UK.

The fund’s currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the funds risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund’s investment managers, the Council considers the likely volatility associated with foreign exchange rate movements to be 8.9% for bonds and equities, as measured by one standard deviation (8.9% in 2020/21). This analysis assumes that all other variables, in particular interest rates, remain constant.
A 8.9% strengthening/weakening of the pound against the various currencies in which the Fund holds bond and equity investments would increase/decrease the value of net assets as follows:

	Value as at 31 March 2022	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas fixed income unit trusts	16,496	1,468	17,964	15,028
Overseas unit trusts	465,160	41,399	506,559	423,761
Total change in assets available to pay benefits	**481,656**	**42,867**	**524,523**	**438,789**

	Value as at 31 March 2021	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas fixed income unit trusts	17,198	1,531	18,729	15,667
Overseas unit trusts	408,610	36,366	444,976	372,244
Total change in assets available to pay benefits	**425,808**	**37,897**	**463,705**	**387,911**

b) 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 Fund’s financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, 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.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's criteria. Although none of the investment managers of the Pension Fund have a mandate to specifically manage cash the fixed interest manager will occasionally place funds on deposit. The Fund's surplus cash from scheme member's contributions is managed by the Council's treasury management section.

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 Fund's cash holding under its treasury management arrangements at 31 March 2022, including current account cash, was £5.119 Million (31 March 2021: £2.306 Million).

Balances as at 31 March 2021 £000	Summary	Rating	Balances as at 31 March 2022 £000
	Bank current accounts		
2,306	Bank of Scotland	**A+**	5,119
2,306	**Total**		**5,119**

c) Liquidity Risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs, and cash to meet investments.

The Council has immediate access to its Pension Fund 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. As at 31 March 2022, the Fund's only illiquid assets under this definition are some of the Pooled Property Investments and the SAIF fund, with a value of £62.481 Million, or 5.76% of the total fund assets. (31 March 2021, £26.025Million, or 2.6% of the total fund assets).

All financial liabilities at 31 March 2022 are due within one year.

d) Refinancing risk
The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its investment strategies.

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18. Funding Arrangements
In line with the Local Government Pension Scheme Regulations 2018, the Pension Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last finalised valuation took place as at 31 March 2020.

The funding policy is set out in the Dumfries and Galloway Council Funding Strategy Statement (FSS), effective from 1 April 2021 (see page 26).

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- to ensure that employer contribution rates are reasonably stable where appropriate.
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment

strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

Results from the 31 March 2020 valuation showed that the Pension Fund's assets were valued at £826 Million (2017 valuation: £837 Million). This was sufficient to meet 92% (92% at 31 March 2017 valuation) of the £900 Million liabilities (i.e., the present value of promised retirement benefits) accrued up to that date (2017 valuation: £913 Million). The resulting deficit at the 2020 valuation was £75 Million (2017 valuation: £76 Million).

The long-term employers' contribution rate was estimated on an individual employer basis except for The Crichton Trust who were pooled together with Dumfries and Galloway Council. Individual employer deficit payments where required were set with the aim of bringing their funding level back up to 100% over a fifteen-year period. This period was reduced for some closed employers where the period was limited to the average working lifetime of employees or the outstanding contract term where applicable. To achieve some stability in contributions a stabilisation rule is in operation and the actuary agreed to a limited contribution rate increases or decreases for the next three-year period. From the 31 March 2014 valuation the deficit adjustment percentage payment was replaced by a monetary payment to reduce the risk of falling payroll numbers. Employers' contribution rates for 2020/21 and for the three years to March 2024 resulting from the 2020 valuation are as shown in the following table:

	Employer contribution rates			
Employer	**Year to March 2021**	**Year to March 2022**	**Year to March 2023**	**Year to March 2024**
Dumfries & Galloway Council Pool	21.3% + £175k	22.0%	22.0%	22.0%
Dumfries & Galloway College	21.2%	22.7%	22.7%	22.7%
Scottish Police Service	21.7%	23.5%	23.5%	23.5%
Scottish Fire & Rescue	22.7% + £18k	22.6% + £54k	22.6% + £54k	22.6% + £54k
Dumfries & Galloway Housing Partnership	24.5%	25.1%	25.1%	25.1%
Community Integrated Care	38.9%	41.8%	41.8%	41.8%
Amey plc	30.1 %	27.6%	27.6%	27.6%
Scottish Agricultural College (Barony College)	27.9%	36.0%	36.0%	36.0%

The method of calculating the employers' contribution rate is known as the "projected unit method". This method aims to calculate the amount of money to be invested which, together with income and growth in accumulating assets, would be sufficient to make the required payments throughout the lifetime of existing members, pensioners, and their dependants. If there continues to be a steady flow of new entrants to the Fund, and the assumptions made in the valuation are borne out, this method results in a stable, long term contribution rate over time.

For employers who have closed the scheme to new employees the "attained age" method of valuation is used. This method considers the fact that they are no longer admitting new entrants when calculating the long-term contribution rate, the adjustment for past service remaining the same.

Financial assumptions.
The principal assumptions used in the 2020 valuation were as follows:

	31 March 2020	
	% per annum	% per annum
Financial Assumptions	**Nominal**	**Real**
Discount rate	3.4	1.7
Pay increases	2.5	0.8
Price inflation / pension increases	1.7	0.0

Demographic assumptions.
The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were based on the fund's VitaCurves. These base tables are then projected using the CMI 2019 Model, allowing for a long-term rate of improvement of 1.5% pa. Assumed life expectancy from age 65 is as follows:

Mortality assumption at age 65	Males	Females
Retiring today	20.9 years	23.3 years
Retiring in 20 years	21.9 years	25.3 years

Commutation assumptions
It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2009 service and 75% of the maximum for post April 2009 service.

50:50 option
It is assumed that 1% of active members (evenly distributed across the age, service, and salary range) will take up the 50:50 option in the LGPS 2015 scheme.

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19. Actuarial Present Value of Promised Retirement Benefits
In addition to the triennial funding valuation, the Pension Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

To assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also used ill health and death benefits in line with IAS19.

31 March 2021 £m		31 March 2022 £m
(1,455)	Present value of promised retirement benefits	(1,408)
1,003	Fair value of scheme assets (bid value)	1,098
(452)	**Net liability**	**(310)**

As noted above, the liabilities above are calculated on an IAS19 basis and therefore will differ from the results of the 2020 triennial funding valuation (see note 18) because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used

	2020/21 %	2021/22 %
Inflation / pension increase rate assumption	2.85	3.20
Salary increase rate	3.65	4.00
Discount rate	2.00	2.70

20. Current Assets

31 March 2021 £000		31 March 2022 £000
	Debtors	
32	• Contributions due – employees	61
116	• Contributions due – employers	204
636	• Sundry debtors	159
784		**424**
2,306	Cash balances	**5,119**
3,090		**5,543**

Analysis of debtors

31 March 2021 £000		31 March 2022 £000
294	Other local authorities	0
149	Public corporations and trading funds	265
341	Other entities and individuals	159
784		**424**

21. Current Liabilities

31 March 2021 £000		31 March 2022 £000
160	Sundry creditors	3,384
424	Benefits payable	626
584		**4,010**

Analysis of creditors

31 March 2021 £000		31 March 2022 £000
0	Central government bodies	3,299
0	Other local authorities	0
584	Other entities and individuals	711
584		**4,010**

22. Additional Voluntary Contributions

Market Value 31 March 2021 £000		Market Value 31 March 2022 £000
514	Standard Life	585
67	Aegon (Scottish Equitable)	49
581		**634**

AVC contributions of £48k were paid directly to Standard Life during the year (2020/21, £43k) and £0.0k paid directly to Aegon during the year (2020/21, £0.0k).

23. Agency Services

The Dumfries and Galloway Council Pension Fund pays discretionary awards to the former employees of Dumfries and Galloway Council as well as other employers within the scheme. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. Sums paid are as follows:

2020/21 £000		2021/22 £000
2,615	Dumfries and Galloway Council	2,568
116	Other employers	114
2,731		**2,682**

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24. Related Party Transactions

Dumfries and Galloway Council

The Dumfries and Galloway Council Pension Fund is administered by Dumfries and Galloway Council. Consequently, there is a strong relationship between the Council and the Pension Fund.

The Pension Fund was charged £361k (£353k in 2020/21) by Dumfries and Galloway Council for expenses incurred in administering the Pension Fund. The Council is also the largest single employer of members of the pension fund and contributed £22.834 Million to the fund in 2021/22 (2020/21 £20.818 Million).

Governance

All 11 members of the Pension Sub Committee were active members of the Pension Fund as at 31 March 2022.

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25. Key Management Personnel

The key management personnel of the fund is the Dumfries and Galloway Council Head of Finance and Procurement. No direct costs are payable by the fund, instead an element of the remuneration and pension benefit identified in the Senior Employee tables within the accounts of Dumfries and Galloway Council is recharged to the fund**.**

2020/21 £000		2021/22 £000
5.0	Recharge in respect of key management personnel	**5.0**

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26. Contingent Assets

1 of the admitted body employers in the Pension Fund hold an insurance bond to guard against the possibility of being unable to meet their pension obligations. This bond is drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

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27. Contractual Commitment

As at 31 March 2022 the Pension Fund had a contractual commitment in respect of BlackRock's Strategic Alternative Income Fund (SAIF).

	Contractual Commitment	**Undrawn Commitments**
BlackRock Strategic Alternative Income Fund	£70 Million	£8.56 Million

Dumfries and Galloway Council Pension Fund ("the Fund") Actuarial Statement for 2021/22

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

Description of Funding Policy
The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), reviewed as part of the 2020 valuation. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation
The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £826 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2020 valuation was £75 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the 2020 valuation report.

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

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

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

Financial assumptions	31 March 2020 (% p.a.)
Discount rate	3.4%
Salary increase assumption	2.5%
Benefit increase assumption (CPI)	1.7%

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

	Males	Females
Current Pensioners	20.9 years	23.3 years
Future Pensioners*	21.9 years	25.3 years

*Currently aged 45

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

Experience over the period since 31 March 2020

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

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

Richard Warden FFA

For and on behalf of Hymans Robertson LLP

7 June 2022