Dumfries & Galloway COUNCIL

Pension Fund

Audited Annual Accounts 2023/24

September 2024

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Management Commentary

Foreword

The Financial Statements included in this document present the Pension Fund's financial position for the year ended 31 March 2024. These have been prepared on a going concern basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (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.

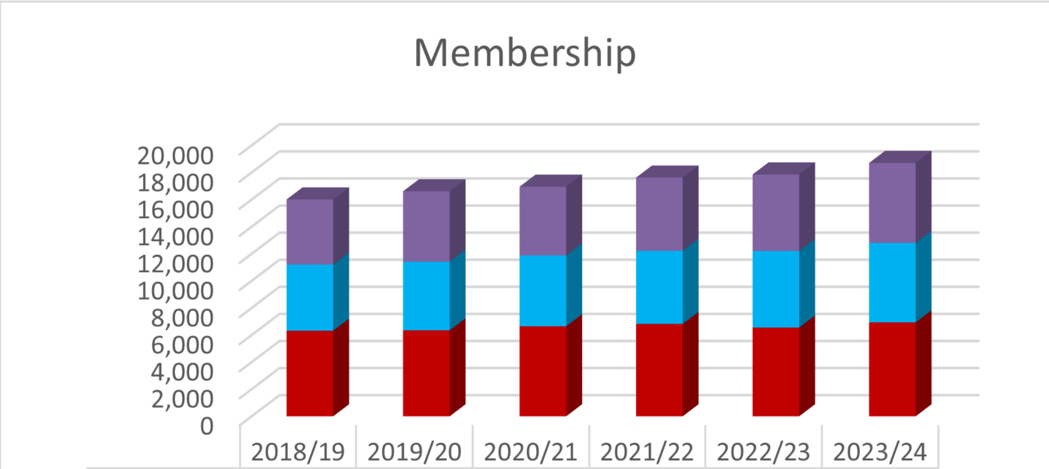
Overview of The Fund

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; -



	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Deferred	4,807	5,201	5,078	5,402	5,658	5,898
Pensioner	4,886	5,065	5,232	5,401	5,644	5,873
Active	6,317	6,349	6,644	6,822	6,555	6,935

- 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, • Scotland's Rural College (Barony)	• Amey plc, • 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 2023 showed that the Fund was 122% funded, meaning that it had 122% 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 20 years. Moreover, there is a stability mechanism used to help employers budget for their contributions by limiting increases or decreases to future contribution rates.

The Pension Fund's Financial Position
The net value of the Pension Fund's assets as at 31 March 2024 was £1,107.9 Million, an increase of £103.5 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 2023	£1,004.4 Million
Add Contributions (Scheme Members and Employers)	£40.5 Million
Less Benefits Paid, Transfers Out and Other Expenses	(£45.4 Million)
Less Change in Investments	£108.4 Million)
Closing Value at 31 March 2024	£1,107.9 Million

The net increase of £108.4 Million on investments includes £90.2 Million for increases in market values, together with a further £18.2 Million in respect of net investment income. During 2023/2024 global markets recovered the losses experienced during 2022/23 as inflation reduced and recession fears lessened. This has resulted in significant gains across the Funds' Investment Portfolio, particularly in relation to equities. The property funds have continued to struggle, primarily due to reductions in the capital value of assets. With continued uncertainty regarding how quickly and by how much inflation and interest rates will drop, coupled with ongoing geopolitical issues, it is anticipated that markets may continue to be volatile over the upcoming period.

The Fund is subject to a detailed actuarial valuation process on a triennial basis. The most recent valuation (as at 31 March 2023) indicated that due to higher than anticipated investment returns over the previous three years and the outlook of returns going forward, the Fund was now in surplus with the value of assets equating to 122% of projected future liabilities. Employer contributions have been set on a prudent basis to ensure the fund remains fully funded in the medium to long term. This approach will be subject to further review at the next triennial valuation that will take place as at the 31 March 2026.

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 Fund's Responsible Investment Beliefs Statement also underpins the Fund's investment decisions.

Over the past year, the Fund has completed the implementation of the final actions arising from the review of the investment strategy that was agreed in September 2022. Onboarding for the Barings Global High Yield

Credit Strategies Fund investment, following their appointment on 3 March 2023 has been completed and the initial subscription of £90Million was traded on 17 April 2023. The Pensions Sub Committee also conducted a manager selection exercise on 2 November 2023 and appointed M&G as a new Residential Property Fund Manager. The onboarding of this investment was completed and the subscription of £30 Million was traded on 31 December 2023.

During the year the Pensions Sub Committee also took the decision to fully disinvest from two funds (Lothbury Property Trust in June 2023 and Baillie Gifford Diversified Growth Fund in March 2024), primarily due to concerns over recent performance and the ongoing management/resourcing arrangements of the funds.

The disinvestment from the diversified growth fund required the Pensions Sub Committee to further alter the strategic asset allocation from that previously agreed in September 2022.

The table below indicates the new target allocations compared to those agreed on 22 September 2022, as well as information on the actual allocations as at 31 March 2024.

	Target Allocation (Sept 2022)		Updated Target Allocation (7 March 2024)		31 March 2024 Allocation	
Growth						
Global equities	42%		47%		49.2%	
Diversified Growth	10%	52%	0%	47%	5.8%	55.0%
Income						
Property	12%		12%		10.2%	
Alternative Income	12%		12%		9.1%	
Multi Asset Credit	9%	33%	12%	36%	11.2%	30.5%
Protection						
Index linked gilts	5%		5%		4.4%	
Corporate bonds	10%		10%		9.9%	
Cash	0	15%	2%	17%	0.2%	14.5%
		100%		**100%**		**100%**

There is currently some variance between target and actual allocations due to the recent positive performance of the global equity funds in comparison to other mandates. There is also some variation due to ongoing implementation of the updated strategic investment strategy. A commitment of £75 Million was made to the Blackrock SAIF on 22 October 2022 but this takes approximately 2 years to fully subscribe. To date £39 Million of this commitment has been called, with the remainder expected during 2024/25.

A key outstanding requirement from the updated target allocation agreed on 7 March 2024 is the switch from the Baillie Gifford Diversified Growth Fund to a new passive global equity index. The Pensions Sub Committee considered options for this switch at their meeting on 25 June 2024. Some fund rebalancing will also be undertaken in conjunction with this exercise.

As at 31 March 2024 the fund had seven 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**
LGIM	RAFI	Passive	FTSE RAFI AW 3000
LGIM	Global Equities	Passive	Solactive L&G ESG Global Markets
LGIM	Index-Linked Gilts	Passive	Gilts
LGIM	Corporate Bonds	Passive	Solactive L&E ESG GBP Corporate Index
Baillie Gifford	Diversified Growth	Active	Sterling Over Night Indexed Average
BlackRock	Property	Active	MSCI All Balanced Funds
BlackRock	Alternative Income	Active	10-15 Year Gilts
Lothbury	Property	Active	MSCI All Balanced Funds
Threadneedle	Property	Active	MSCI All Balanced Funds
M&G	Property (Residential)	Active	6% p/a (net of fees)
Barings	Multi Asset Credit	Active	3 Month Secured Overnight Financing Rate (US)

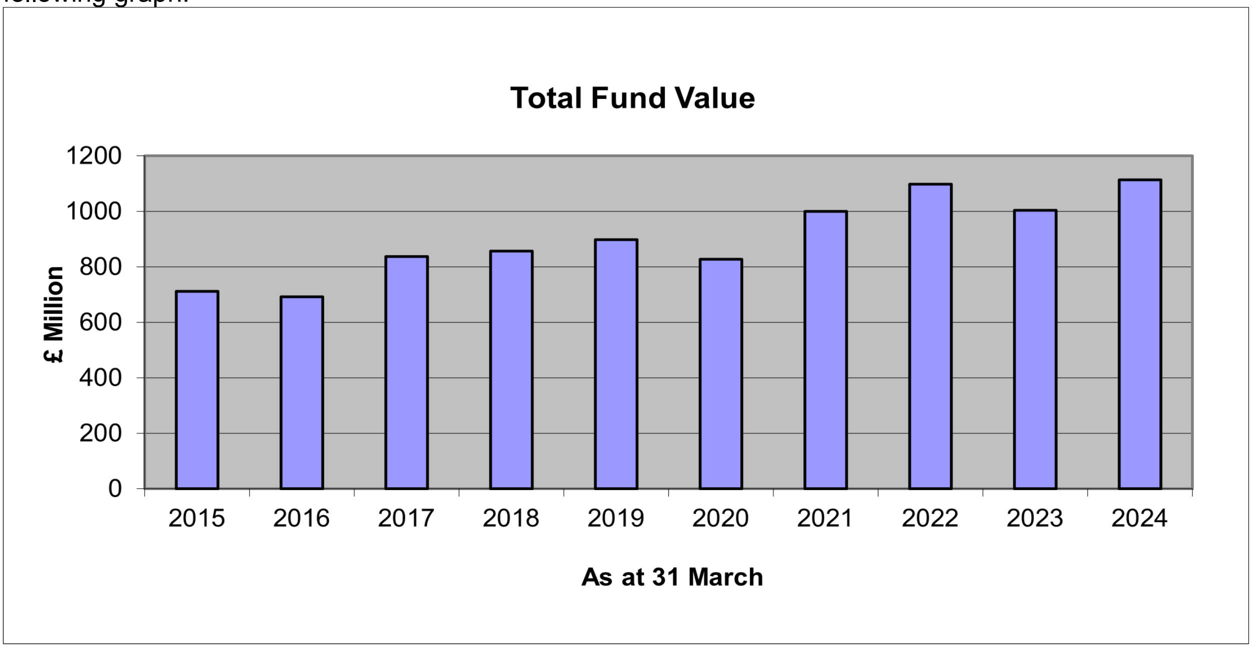
Performance

The fund has responded to the challenges of unprecedented events and market conditions in recent years. Political uncertainty, inflation, rising interest rates and geopolitical issues have continued to play heavily on financial markets during 2023/24. Despite this, the overall investment performance was positive over the last 12-month period, particularly due to significant returns in relation to global equity mandates.

Key points on performance during the year are:

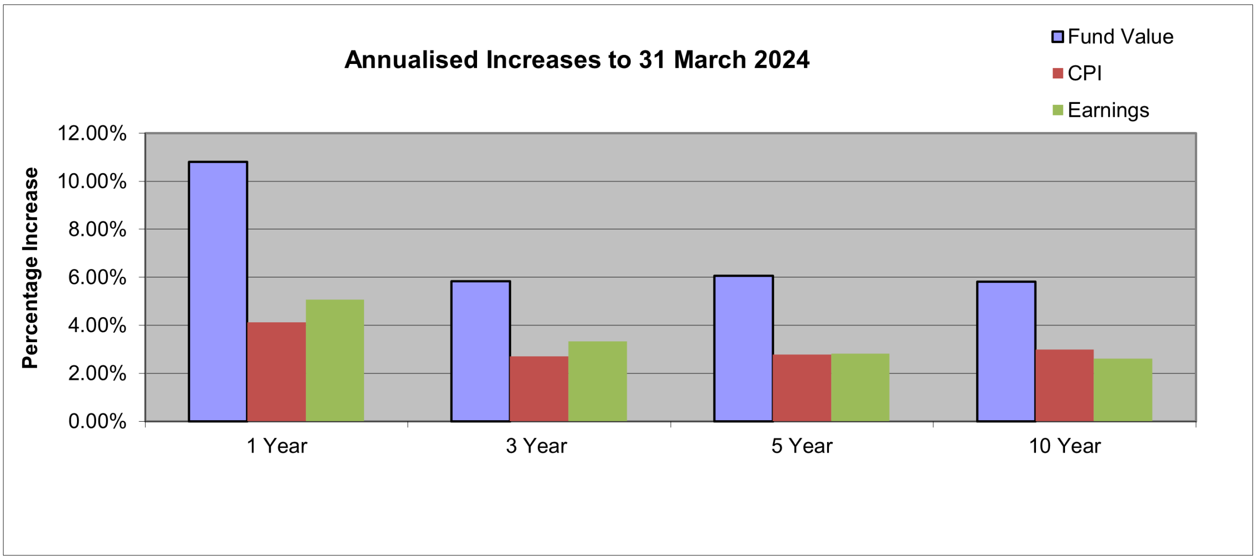
- Investment returns were 10.3% during 2023/24, broadly in line with the benchmark of 10.5%,
- Annualised investment returns were ahead of benchmark over the three-year period, being 4.7% against a benchmark of 4.2%,
- Over the five-year period annualised investment returns were ahead of benchmark being 4.9% against a benchmark of 4.5%,
- The LGIM Future World Global Equity and RAFI index funds had very strong performance in 2023/24 with returns of 21.4% and 18.4% respectively,
- All property managers had a particularly challenging year as capital asset values dropped. Columbia Threadneedle was the only property fund manager to have positive return over the year (0.5% against a benchmark of -0.7%). With BlackRock and Lothbury significantly behind benchmark,
- Lothbury was the biggest drag on overall performance as they returned -8.8% against a benchmark of -0.7%, however this is to be expected following the announcement of the winding down of the fund,
- The Blackrock Strategic Alternative Income Fund (SAIF) also had a challenging year with a return of 3.5% against a benchmark of 6.2%, however, this is primarily due volatility around expectations on future interest rates cuts.

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. As highlighted above, this year has been overall positive and the total fund value increased by £103.6 Million to £1,107.9 Million, primarily as the result of positive investment returns. Generally, the Fund has seen a gradual increase in value over the long term and has increased by £397 Million since March 2015. Annual values are shown in the following graph:



The positive investment returns over the past year and longer term have meant that the fund value increase is well above both historic price and wage inflation, the two of the main areas to which the liabilities of the Pension Fund are linked. The figures in the table and graph below demonstrate how the Net Fund Value has compared with CPI and wage inflation over the past 1, 3, 5 and 10 year period.

Annualised Increases Over	1 Year %	3 Years %	5 Years %	10 Years %
Net Fund Value	11.72	5.91	6.13	5.87
Consumer Price Index (CPI)	4.12	2.71	2.77	2.99
National Average Earnings	5.06	3.32	2.82	2.62



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 was addressed as part of the revised investment strategy agreed in September 2022 whereby a modest switch from growth seeking assets to income seeking assets as a move towards improving the cash flow position of the Fund.

The most recent triennial valuation of the fund as at 31 March 2023, indicated that the Fund was now 122% funded compared to 92% at the last valuation as at 31 March 2020. This increase was primarily due to an increase in current and future assumed investment returns. This has allowed the contribution rates for all employers to be marginally reduced. This, however, has an impact on the cashflow of the fund as it further reduces contributions received. This is being monitored closely; however, it is anticipated that this reduction can be offset by increased investment income.

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 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.

The Pensions Regulator issued an updated code of practice in January 2024 which came into force on 27 March 2024. This brings together the previous single codes into one single code. It is not anticipated that there are any significant changes or issues with compliance as the result of this new code, however, a more detailed review is underway to ensure the Fund is fully complying.

An upcoming requirement that the Pension Fund is sighted on is the Taskforce for Climate Related Financial Disclosures (TCFD) reporting. This will require the Fund to publish an annual climate risk report, either as a standalone document or a section in their annual reports. In England and Wales, the first reporting year for the LGPS was planned for 2023/24 but the Department for Levelling Up, Housing and Communities confirmed this will be delayed for 2023/24. The implementation date for Scottish LGPS funds has not yet been set. The Fund continues to monitor this and keep up to date with requirements.

Risk Management

The Fund considers the risks associated with the management and administration of the fund regularly. On a quarterly basis officers review the risk register and this is reported annually to the Pensions Sub Committee and Board, however, if a significant change in risk was identified this would be brought forward as appropriate. The risk register can be found in the following link:
https://dumfriesgalloway.moderngov.co.uk/ieListDocuments.aspx?CId=544&MId=5801&Ver=4 ,

The key risks covered in the risk register include:

- Failure to comply with or respond to changes to LGPS regulations as well as other overriding regulations,
- Business continuity due to a temporary loss of ability to provide service to stakeholders. There are business continuity and cyber security plans in place for cloud-based systems and Council systems,
- Staffing & knowledge risk as the administration team is small and experience is held by a small number of individuals. There are recruitment difficulties, pensions are a complex area of work, a lack of resource risks non-compliance with regulations including (but not limited to) records not being kept up to date, benefits calculated incorrectly, benefits paid late and failure to communicate properly with members and stakeholders,
- Failure to keep pension records up to date and accurate and failure to process accurate and timely pension benefit payments,
- Fund Investments fail to deliver anticipated returns,
- Fraudulent behaviour is minimised through the use of Council financial management systems and codes, participation in the National Fraud Initiative, internal audit, and monitoring systems.

Pensions Administration Review

This section provides an update on arrangements made during 2023/24 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 (5.5 full time equivalent).

The Section comprises of the following:

Role	No.	Average Years of Council Service
Team Leader Pensions	1	33 years
Pensions Officer	1	14 years
Pensions Assistant	4	3 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 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 Heywood Pension Technologies 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 Heywood Pension Technologies on both software and hardware platforms and back up and secure data storage is managed by Heywood Pension Technologies.

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.

Activity Review 2023/24

General

The Section successfully completed all its statutory functions within the required timescales for the reporting period, e.g. the payment of pensions and lump sum benefits and the issuing of annual statements. The annual statements for financial year 2023/24 were issued after the balance sheet date with an overall issue rate of 97% by the statutory deadline of 31st August 2024.

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 first 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.

The Communications strategy is included on the Pensions Section of the Council website and can be found at the following link: https://www.dumgal.gov.uk/article/26962/Local-Government-Pension-Scheme-LGPS

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.

In accordance with the scheme regulations, the Fund has a separate Communications Policy which sets out how everyone with any interest in the Fund will have ready access to all the information they need. In the context of the Pension Administration Strategy, Employer Engagement and Member Communications including digital delivery is priority to ensure the Fund receives the correct information at the right time to calculate accurate member benefits and engage with members so they can actively manage their pension accounts.

Communications and customer engagement provision in 2023/24 is formed of:

- Launch and roll out of the Pensions Online Portal to active members,
- Annual pension forecasts for active and deferred members,
- Annual pension update letter to every pensioner member,
- Face-to-face meetings,
- Telephone calls, emails or Teams meetings,
- 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. 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 97.06% 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.

Performance
Performance standards are set out in the Administration Strategy, and these are reported annually to Members. Key Performance Indicators for 2023/24 will be reported to Members in September 2024 and include the following:

	Target	2022/23	2023/24
Key statutory deadlines met (including payment deadlines)	100%	98%	97%
Annual member Admin Cost	Under £30.00	£28.17	£28.13
Staff/Member ratio	n/a	1:3,226	1:3,324
Number of complaints	0	1	0
Annual pension forecasts issued by 31st August	100%	100%	97%
Payment of lump sum on death (15 days of info received)	90%	97%	86%
Payment of retirement pension (10 days of info received)	90%	98%	96%
Early leaver payment of refund (30 days)	90%	93%	80%

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, home visits, face-to-face meetings) together with clear communications, ensures our customers' expectations are met resulting in positive feedback and a low level of complaints.

Valuation
A funding valuation is carried out every three years as required by LGPS regulations to assess the ongoing financial position of the fund and its employers and review the contribution rates payable. The triennial valuation was carried out in 2023 in conjunction with the Fund's actuary.

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.

The McCloud regulations were introduced from 01/10/2023. From this date records going forward are assessed for McCloud as part of normal processing. 16071 records processed between 01/04/2015 and 30/09/2023 require retrospective calculations, with a further 9987 records needing additional information to establish if they are in scope for McCloud assessment. Work is on-going in relation to this.

Pensions Online Portal
The online pension portal was launched for active scheme members in February 2024. This allows members to securely access their pension record 24/7, perform retirement calculations, update their personal details and death benefit nominations. The portal will be extended to deferred members in 2024 and additional functionality will be made available as it is developed by Heywood Pension Technologies.

Shared Cost AVC Scheme
Dumfries and Galloway Council as Scheme Employer launched a shared cost additional voluntary contribution (SCAVC) scheme in February 2024 in partnership with My Money Matters. This is the second employer in the Fund to make such a scheme available to their LGPS member employees. My Money Matters administer the SCAVC scheme on behalf of the employer reducing the administrative burden. They also provide members with an online portal to manage their AVC contributions and extensive educational material about the LGPS, pension saving and retirement planning.

National Frameworks
Dumfries and Galloway Council Pension Fund joined the LGPS National Framework in 2023 as a founder of the National Framework for Additional Voluntary Contribution (AVC) Services with Norfolk Pension Fund, Strathclyde Pension Fund, Leicestershire County Council Pension Fund and Cheshire Pension Fund.

A procurement Framework is an agreement put in place with a provider or range of providers that enables buyers to place orders for services without running lengthy full tendering exercises.
Frameworks are based on large volume buying. Aggregating different buyers' potential needs means individual buyers can source services at lower prices, or with special added benefits and/or more advantageous conditions.

The National LGPS Frameworks are multi-provider, allowing several qualified providers to be on the Framework. Procurement Framework Agreements are Public Contract Regulations (2015) compliant, this removes the need to independently undertake a full procurement process, as this has already been done as part of setting up the Framework.

Agreed terms and conditions are provided so LGPS Funds can simply 'call-off' the Framework to meet their own local requirements. When an LGPS Fund needs to buy a service from the Framework Agreement, they simply 'call off' the Framework by running a Further Competition, which usually takes 4-6 weeks. This enables Funds to locally define their requirements.

Hybrid Working
The Pensions Team maintain a hybrid model of both working from home and spending time together in an office. This will continue to be reviewed to ensure staff well-being and productivity is maintained.

Staff Development
All members of the Pensions Team have benefitted from personalised training plans to ensure knowledge and learning is an ongoing process. This is monitored through Personal Development Plans and regular 1-2-1 meetings. The team has been flexible in approach to working and learning using both online and in person training sessions to their benefit.

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

Custodian
The Fund does not have an appointed custodian due to all Funds being held within pooled investment vehicles. Fund Valuations are reconciled on a quarterly basis by an officer and compared to the independent valuation conducted by Hyman's Robertson, the Funds' investment advisors.

The Next 12 Months – 2024/25

Pensions Dashboards
Following the introduction of Automatic Enrolment, a record number of people are now saving for retirement. However, it can often be difficult for people to keep track of their pensions and recognising this difficulty the UK Government is introducing pensions dashboards to 'revolutionise' the way people can see and interact with their pensions. Pensions dashboards are an electronic communications service intended to be used by individuals to access information about their pensions online, securely, and all in one place. As a pension provider we will be legally required to participate in pensions dashboards by 31 October 2025.

In order to be prepared data quality is continually tested and working methods updated to ensure data is consistently of high quality. Future development of systems will include the procurement of a member tracing service and Dashboard compatible Integrated Service Provider (ISP).

Pensions Administration Strategy Review
The pensions administration strategy (PAS) sets out the responsibilities of the administering authority and scheme employers in administering the LGPS. A review of the PAS was presented to Pensions Sub Committee on 25 June 2024.

Financial Planning workshops
Planning for Retirement, Your Financial Well-being and Pension Taxation workshops are now offered online and have received a significant uptake, these will continue to be promoted to our members.

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.

Gillian Ross
Interim Chief Financial Officer

Malcolm Johnstone
Chair of Pensions Sub Committee

Annual Governance Statement

Dumfries & Galloway Council acts as Administering Authority and Scheme Manager of the Dumfries & Galloway Council Pension Fund. The Scheme Manager delegates all pension scheme investment business to its Pensions Sub Committee which meets quarterly.

The Membership of the Pension Sub Committee comprises of eleven Elected Members. The following table details Membership throughout the year:

MEMBERSHIP
Cllr Malcolm Johnstone (Chair)
Cllr Ivor Hyslop (Vice Chair)
Cllr John Campbell
Cllr Linda Dorward
Cllr Archie Dryburgh MBE
Cllr Gail Macgregor
Cllr Andy McFarlane
Cllr Stephen Thompson
VACANCY x 3

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, as required,
- All issues relating to the administration and payment of benefits.

The Pension Board is separate from the Pension Sub-Committee, and responsible for assisting Dumfries and Galloway Council (as Scheme Manager) in relation to securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme, as well as the requirements of the Pensions Regulator. The Pensions Sub Committee continues to have responsibility for all pension matters.

The Pensions Board consists of an equal number of trade union representatives and employer representatives with the current membership detailed below.

Current
Cllr Tony Berretti (DG Council) (Chair)
Helen Cronie (D&G College)
Colin Graham (UNITE)
Cllr Maureen Johnstone (DG Council)
Philip McGroggan (UNISON)
David Stainthorpe (UNISON)
Cllr Keith Walters (DG Council)
Moira Weatherup (UNISON)

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

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

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,
- Monitoring and maintaining a risk register.

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.

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

The Council's Governance Framework and Statement was developed in part through the use of an improved Good Governance Questionnaire to enable all Heads of Service to contribute to the Annual Governance Statement. This Questionnaire sought to generate factual responses, training requirements and examples of good practice to:

- Consider the extent to which the authority complies with the principles of good governance,
- Identify systems, processes and documentation that provide evidence of compliance,
- Identify the individuals responsible for monitoring and reviewing the systems, processes and documentation,
- Identify issues that have not been addressed in the authority and consider how they should and could be addressed.

The Good Governance Questionnaire, and the Annual Governance Statement are based around the Good Governance Principles contained in the Council's Local Code of Corporate Governance. Analysis of Questionnaire responses demonstrated a high level of awareness of and compliance with the Good Governance Principles.

During the year a review of the governance arrangements specific to the Pension Fund was undertaken to establish an overall Governance document for the Fund. This has been reviewed initially by a short life working group including officers supporting the Fund and a representative from the Pensions Sub Committee and the Pensions Board. This document will be presented to the Pensions Sub Committee and Board when finalised.

Internal audit services for the Fund are provided by Dumfries and Galloway Council's Internal Audit Service. Internal Audits are delivered in accordance with the Internal Audit Charter, with methodology aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing, and in conformance with Public Sector Internal Audit Standards (PSIAS). The standards require that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. This was carried out by the Internal Audit Team from Midlothian Council and had 19 recommendations of which 12 are addressed to the Internal Audit Manager / Chief Internal Auditor and 7 to Senior Management in the Council. None of these recommendations impacted on the Pension Fund.

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

All internal audit reports, including those relating to the Council's role as administering authority of Dumfries and Galloway Council Pension Fund are reported to the Council's Audit, Risk and Scrutiny Committee. The core functions of the Audit, Risk and Scrutiny Committee comply with the Audit Committees: Practical Guidance for Local Authorities. Any audits specifically in relation to the Pension Fund are also reported to the Pensions Sub Committee and Board.

No specific audits in relation to the Pension Fund were undertaken during 2023/24, however, an audit of the Council's income management and banking arrangements, which are also used for the Pension Fund were undertaken during the year and reported to Audit, Risk and Scrutiny Committee. The audit concluded in November 2023 that the new banking arrangements were operating effectively but would benefit from more central oversight. The report was presented to the Council's Audit, Risk and Scrutiny Committee in November 2023.The Council's payroll system is used to calculate and deduct pension contributions for Council employee members and for the payment of pensions. Internal Audit last reported on the system in January 2023 and provided good assurance.

A review of Pensions Administration was conducted during 2023/24 and the conclusion of this audit was "The administration of pensions is well managed overall and there are no audit actions as a result."

The Head of Internal Audit as part of their annual review, make assessment on the adequacy and effectiveness of the Pension Fund's Internal Controls. The overall annual internal audit opinion concludes "that generally sound systems of internal control were in place during 2023/24. Some areas for improvement were identified through internal audit work. No internal audit work was undertaken on the Pension Fund's governance and risk management arrangements during 2023/24 and no assurance is offered in this respect. These areas will be reviewed during 2024/25." All internal audit work complies with the CIPFA statement on the Role of the Head of Internal Audit.

The Fund makes use of the Councils Anti-Fraud and Corruption Policy. CIPFA issued a code of practice on Managing Risk of Fraud and Corruption in January 2024 and the Council's policy is in line with this. The Fund also takes part in the National Fraud Initiative, via Council arrangements in order to identify if fraud has been committed and pensions have been wrongly paid and take subsequent recovery action. Occasionally incorrect payments may be made because of genuine error, and this could result in payments to pensioners being increased. This exercise therefore helps promote the best use of public funds. All matches were investigated and 5 records relating to deceased members were found. Three pensions have subsequently been stopped and are being investigated. The matching identified two deferred pension members who have died, and tracing of next of kin is underway. No cases were found where pensioner members were re-employed and their pensions were subject to abatement. Two of the three overpayments were for supplementary teacher pensions. In these cases, the main pension administrator is the Scottish Public Pensions Agency (SPPA). Although SPPA have been informed of the person's death there is no effective system at present for this information to be passed to Administering Authorities to stop the payment of supplementary pensions. The third overpayment was a LGPS pension where the Tell Us Once system was not used to notify the Council that the recipient had died. Payment continued for 10 months resulting in an overpayment of £8,441. Steps are being taken to recover the overpayment.

The Head of Finance and Procurement (now Chief Financial Officer from 1 April 2024) complied fully with the five principles of the role of the Chief Financial Officer, as set out in CIPFA guidance. The Council's financial management arrangements conform with the requirements of the CIPFA Financial Management (FM) Code.

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 18.

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 20.

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 29.

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 15.

Gillian Ross	**Malcolm Johnstone**
Interim Chief Financial Officer	**Chair of Pensions Sub Committee**

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 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 observers, and • Expert advisers (on an ad-hoc basis).	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. 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 2022 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. 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. 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.	Yes N/A N/A	Joint meetings of the Pensions Sub Committee and Pensions Board are held at least four times a year. No secondary panel established. 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 Malcolm Johnstone
Chair of Pensions Sub Committee

Gillian Ross
Interim Chief Financial Officer

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 Internal Audit Manager 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 Internal Audit Manager 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).

Gillian Ross
Interim Chief Financial Officer (Section 95 Officer)

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 2024 was the Head of Finance and Procurement (Chief Financial Officer from 1 April 2024),
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014, and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003)
- 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 19 September 2024.

Gillian Ross
Interim Chief Financial Officer

Malcolm Johnstone
Chair of Pensions Sub Committee

The Chief Financial Officer Responsibilities

The Head of Finance and Procurement (Chief Financial Officer from 1 April 2024) 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 Chief Financial Officer 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 Chief Financial Officer 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 2024.

Gillian Ross
Interim Chief Financial Officer

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 and 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 from 1 March 2023 to 28 February 2030. 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, 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,
- 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/securities 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 strategic asset allocation agreed in

September 2022 was stress tested as part of the triennial valuation exercise undertaken during 2023/24 and that confirmed that there was no requirement to alter the strategic asset allocation at this time. However, following the decision of the Pensions Sub Committee on 7 March 2024 to disinvest from the diversified growth fund, some minor changes to the strategic asset allocation were required.

The revised allocation is as follows:

	Target Allocation (Sept 2022)		Updated Target Allocation (7 March 2024)	
Growth				
Global equities	42%		47%	
Diversified Growth	10%	52%	0%	47%
Income				
Property	12%		12%	
Alternative Income	12%		12%	
Multi Asset Credit	9%	33%	12%	36%
Protection				
Index linked gilts	5%		5%	
Corporate bonds	10%		10%	
Cash	0	15%	2%	17%
		100%		**100%**

Investment Managers
The management structure has been constructed to balance the risks, rewards, and costs of investing the schemes assets. 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 2024 is shown in the following table.

Manager	**Mandate**	**% of Fund**	**Benchmark**	**Target**
Baillie Gifford	Absolute Return	5.8%	Absolute Return	Outperform
Lothbury	Property	2.3%	MSCI All Balanced Funds	Outperform
Legal & General Investment Managers	Passive Global Equities	24.1%	Solactive L&G ESG Global Markets	Match
Legal & General Investment Managers	Passive Bonds/Gilts	14.4%	Bespoke	Match
Legal & General Investment Managers	Multi Factor Index	25.1%	FTSE RAFI	Match
BlackRock	Property	2.4%	MSCI All Balanced Funds	+ 0.5%
BlackRock	Alternative Income	9.1%	Gilts	+2-3%
M&G	Property	2.6%	Absolute Return	Outperform
Columbia Threadneedle Property	Property	2.9%	MSCI All Balanced Funds	Outperform
Barings	Multi Asset Credit	11.1%	Absolute Return	Outperform
	Cash	0.2%		

The Pensions Sub Committee on 21 September 2022 agreed to commit a further £75 Million to their UK Strategic Alternative Income Fund (SAIF). As at 31 March 2024 £39 Million of this commitment had been invested. This remaining commitment will be drawn down over the next year.

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.

The Fund also has allocations to alternative income and multi asset credit, again in pooled vehicles to further diversify the Fund’s investments and provide exposure to infrastructure and real estate equity as well as private credit, loans and bonds.

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 is 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 amendment to the strategic asset allocation was agreed in September 2022. This strategic asset allocation was stress tested as part of the triennial valuation process during 2023/24 which confirmed no changes were required.

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. This risk is managed through quarterly fund value reconciliations that are completed by Pension Fund Officers and compared to independent valuations completed by the Funds Investment Advisors,
- 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	• 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.	Yes

strength of the covenant of participating authorities, the risk of their default, 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.	
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	• 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.	Yes

performance against stated objectives. • Provide regular communication to members in the form they consider most appropriate.	• 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.	

Funding Strategy Statement

Introduction

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").
Dumfries and Galloway Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2024.

What is the Dumfries and Galloway Council Pension Fund?
The Fund is part of the Scottish Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.scotlgpsmember.org. The Administering Authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

What are the funding strategy objectives?
The funding strategy objectives are to:

- Take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants,
- Use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency,
- Where appropriate, ensure stable employer contribution rates,
- Reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy; and
- Use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

Who is this FSS for?
The FSS is mainly for employers participating in the Fund because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.
Different types of employers participate in the Fund:

Scheduled bodies
Employers who are specified in a schedule to the LGPS regulations, including councils and employers like further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Admission bodies
Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as community admission bodies (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called transferee admission bodies (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

How does the funding strategy link to the investment strategy?
The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the Administering Authority. The investment strategy is set out in the Fund's Statement of Investment Principles which can be found on the Fund's website.

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

Does the funding strategy reflect the investment strategy?
The funding policy is consistent with the investment strategy contained within the Statement of Investment Principles. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A).

How is the funding strategy specific to the Dumfries and Galloway Council Pension Fund?
The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

How does the Fund calculate employer contributions?

Calculating contribution rates
Employee contribution rates are set by the LGPS regulations as they apply in Scotland.
Employer contributions are made up of two elements:

- The primary contribution rate – contributions payable towards future benefits,
- The secondary contribution rate – the difference between the primary rate and the total employer contribution.

The primary rate also includes an allowance for the Fund's expenses.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- The funding target – how much money the Fund aims to hold for each employer,
- The time horizon – the time over which the employer aims to achieve the funding target,
- The likelihood of success – the proportion of modelled scenarios where the funding target is met.

This approach considers the maturing profile of the membership when setting employer contribution rates.

The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Council Pool	Police, Fire	Colleges & universities	Open to new entrants	Closed to new entrants	(all)
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	75%	75%	80%	75%	75%	75%
Maximum time horizon	20 years	20 years	20 years	20 years	20 years or average future working lifetime, if smaller	Remaining contract term
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	% of payroll	% of payroll or monetary amount	% of payroll	% of payroll	% of payroll or monetary amount	Monetary amount

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Council Pool	Police, Fire	Colleges & universities	Open to new entrants	Closed to new entrants	(all)
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at primary rate. However, reductions may be permitted by administering authority	Contributions kept at primary rate. However, reductions may be permitted by administering authority	Preferred approach: contributions kept at primary rate. However, reductions may be permitted by administering authority		Allow for surplus in contributions by spreading surplus over the remaining contract term
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 the remaining contract term

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*
*** See Appendix D for further information on funding targets.*

Making contribution rates stable
Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund adopts a formal stabilisation mechanism to setting contributions for some individual employers, which keeps contribution variations within a pre-determined range of +0.5% / -1.0% of pay from year-to-year.

Eligibility to participate in the stabilisation mechanism and the range for contribution variations are reviewed during the valuation process. The Fund may change the pace of increases or decreases in contributions where required. The Administering Authority also may review the variation ranges and eligibility between valuations in response to membership or employer changes.

Reviewing contributions between valuations
The Fund may amend contribution rates between formal valuations, in line with LGPS regulations. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

What is pooling?
The Administering Authority may operate contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the Fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren’t disclosed to pooled employers, unless agreed by the Administering Authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the Fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

What are the current contribution pools?
The Fund currently operates pools on behalf of three employers that have responsibility for funding the benefits of all of the entities, active or ceased, that are within each pool.

- The Dumfries and Galloway Council pool includes Dumfries and Galloway Council, historic regional and district councils, local authority funded schools, smaller related employers and certain ceased contractors,
- The Scottish Police pool and Scottish Fire and Rescue pool both include smaller related employers.

Administering Authority discretion
Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the Administering Authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

What additional contributions may be payable?

Pension costs – awarding additional pension and early retirement on non ill-health grounds
If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread if the administering authority agrees:

Scheme employers	- up to 5 years
Community Admission Bodies	- up to 3 years
Transferee Admission Bodies	- payable immediately

Pension costs – early retirement on ill-health grounds
If a member retires early because of ill-health, their employer must pay a funding strain, which may result in a large change to their funding position. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see below).

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 may be reduced by the amount of insurance premium. This is at the sole discretion of the Administering Authority.

How does the Fund calculate assets and liabilities?

How are employer asset shares calculated?
The Fund adopts a cashflow approach to track individual employer assets.

Each Fund employer has a notional share of the Fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.
If employees move when an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring.

How are employer liabilities calculated?
The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the Fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

What is a funding level?
An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See page 30 for further information on rates.

What happens when an employer joins the Fund?

When can an employer join the Fund
Employers can join the Fund if they are a new scheduled body or a new admission body.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out on page 30, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement or some other form of risk sharing).

New admission bodies as a result of outsourcing services
New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. The Fund may consider how risk may be reflected in the contribution rate payable and asset allocation for the new contractor. It is the responsibility of the letting authority and contractor to notify the Administering Authority about the existence of any specific pension risk sharing clauses for the outsourcing.

More details on outsourcing options can be obtained from the Administering Authority or in the contract admission agreement.

Other new employers
There may be other circumstances that lead to a new admission body entering the Fund, e.g. set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

Risk assessment for new admission bodies
A new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the Administering Authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:
- Strain costs of any early retirements, if employees are made redundant when a contract ends prematurely,
- Allowance for the risk of assets performing less well than expected,
- Allowance for the risk of liabilities being greater than expected,
- Allowance for the possible non-payment of employer and member contributions,
- Admission body's existing deficit.

The Fund's admissions policy is available on request.

What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:
- The Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower,
- The Fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities,
- The Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

What happens when an employer leaves the Fund?

What is a cessation event?
Triggers for considering cessation from the Fund are:
- The last active member stops participation in the Fund. The Administering Authority, at its discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time,
- Insolvency, winding up or liquidation of the admission body,
- A breach of the agreement obligations that isn't remedied to the Fund's satisfaction,
- Failure to pay any sums due within the period required,
- Failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor,
- Termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the Fund.

What happens on cessation?
The Administering Authority must protect the interests of the remaining Fund employers when an employer leaves the Fund. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using the Fund's risk-based cessation approach, outlined in Appendix E,
b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund,
c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased transferee admission body) or guarantor or, if no authority/guarantor exists, shared between the other Fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund's cessation policy is set out in Appendix E.
What happens if there is a surplus?
If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the Administering Authority will obtain a revised rates and adjustments certificate showing the exit credit payable to the exiting employer.

How do employers repay cessation debts?
If there is a deficit, full payment will usually be expected in a single lump sum or:

- Spread over an agreed period, if the employer enters into a deferred spreading arrangement (DSA),
- If an exiting employer enters into a deferred debt agreement (DDA), it stays in the Fund and pays secondary contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

More detail of the flexibilities available to employers on exit can be found in the Fund's cessation policy (see Appendix E).

What if an employer has no active members?
When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

a) Their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers will be required to contribute to the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis at successive formal valuations,
b) The last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will apportion the remaining assets to the other Fund employers on a pro-rata basis.

What are the statutory reporting requirements?

Reporting regulations
The Public Service Pensions Act 2013 requires that the Government Actuary's Department must report to the Scottish Public Pensions Agency (SPPA) acting on behalf of Scottish Ministers on each of the LGPS Funds in Scotland. This report is usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

Solvency
Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

a) Employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level,

or

b) There is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

Long-term cost efficiency
Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the Administering Authority may consider absolute and relative factors.

Relative factors include:

1. Comparing LGPS funds with each other,
2. The implied deficit recovery period,
3. The investment return required to achieve full funding after 20 years.

Absolute factors include:

1. Comparing funds with an objective benchmark,
2. The extent to which contributions will cover the cost of current benefit accrual and interest on any deficit,
3. How the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy,
4. The extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate,
5. How any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD and SPPA on a standardised market-related basis where the funds' actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?
The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). The purpose of the FSS is to document the processes the Administering Authority uses to:

- *Establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward,*
- *Support the regulatory framework to maintain **as nearly constant employer contribution rates as possible,***
- *Ensure the fund meets its **solvency and long-term cost efficiency** objectives,*
- *Take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the Administering Authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation
Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*.

The consultation process included issuing a draft version of the FSS - for comments or questions - to all participating employers.

A3 How is the FSS published?
The FSS is:
- Published on the Fund's website www.dumgal.gov.uk/pensions,
- Published as part of Pensions Committee agendas,
- Available freely on request.

A4 How often is the FSS reviewed?
The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall Fund documentation?
The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the Statement of Investment Principles, administration strategy and communications strategy. The Fund's annual report and accounts also includes up-to-date Fund information.
You can see all Fund documentation at www.dumgal.gov.uk/pensions .

Appendix B – Roles and responsibilities

B1 The Administering Authority:

1 Operates the Fund and follows all LGPS (Scotland) regulations,

2 Manages any conflicts of interest from its dual role as Administering Authority and a Fund employer,

3 Collects employer and employee contributions, investment income and other amounts due,

4 Ensures cash is available to meet benefit payments when due,

5 Pays all benefits and entitlements,

6 Invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the Statement of Investment Principles (SIP),

7 Communicates with employers so they understand their obligations,

8 Safeguards the Fund against employer default,

9 Works with the Fund actuary to manage the valuation process,

10 Provides information to the Government Actuary's Department so they can carry out their statutory obligations,

11 Consults on, prepares and maintains the funding and investment strategies,

12 Tells the actuary about changes which could affect funding,

13 Monitors the Fund's performance and funding, amending the strategy statements as necessary,

14 Enables the local pension board to review the valuation process.

B2 Individual employers:

1 Deduct the correct contributions from employees' pay,

2 Pay all contributions by the due date,

3 Have appropriate policies in place to work within the regulatory framework,

4 Make additional contributions as agreed, for example to augment scheme benefits or pay early retirement strains,

5 Tell the Administering Authority promptly about any changes to circumstances, prospects or membership which could affect future funding,

6 Make any required exit payments when leaving the Fund.

B3 The Fund actuary:

1 Prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting Fund solvency and long-term cost efficiency,

2 Provides information to the Government Actuary's Department so they can carry out their statutory obligations,

3 Advises on Fund employers, including giving advice about and monitoring bonds or other security,

4 Prepares advice and calculations around bulk transfers and individual benefits,

5 Assists the Administering Authority to consider changes to employer contributions between formal valuations,

6 Advises on terminating employers' participation in the Fund,

7 Fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 Internal and external investment advisers ensure the Statement of Investment Principles (SIP) is consistent with the Funding Strategy Statement,

2 Investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the Statement of Investment Principles,

3 Auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements,

4 Governance advisers may be asked to advise the Administering Authority on processes and working methods,

5 Internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the Administering Authority's own procedures,

6 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 – Risks and controls

C1 Managing risks

The Administering Authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the board's constitution which is available in the Fund's governance policy, available at www.dumgal.gov.uk/pensions.

Details of the key Fund-specific risks and controls are below.

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 and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of 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.

Risk	Summary of Control Mechanisms
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure key outcomes. Chosen option considered to provide the best balance; reviewed at least every three years.
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. 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 additional cost will be met by the Fund's remaining employers.
Effect of possible asset underperformance as a result of climate change	The Fund actively considers this risk when allocating assets and appointing fund managers

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.

Risk	Summary of Control Mechanisms
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 can be monitored, and external insurance is an option for employers.
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. For other employers, review of contributions is permitted in general between valuations 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.
Time, cost and/or reputational risks associated with any SPPA/Scottish Ministers intervention triggered by the Section 13 analysis.	Take advice from Fund Actuary on proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular 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 was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible. 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.

Risk	Summary of Control Mechanisms
	Reviewing contributions well ahead of cessation if thought appropriate.
An employer ceasing to exist resulting in an exit credit being payable by the Fund	The Administering Authority monitors admission bodies coming up to cessation. The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire, Colleges	Tax-raising or government-backed, no individual assessment required	n/a
Admission bodies (including TABs & CABs)	Covenant assessment carried out by Fund Officers to assign employers a risk rating of "high risk", "medium risk" or "low risk".	The Fund will review employers periodically or when a significant event occurs.

C7 Climate risk and TCFD reporting

The Fund has considered climate-related risks as part of the 2023 valuation when setting the funding strategy.

To consider the resilience of the strategy, the Fund included climate scenario stress testing in the contribution modelling exercise for 2023 valuation. The modelling results under the stress tests were within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The modelling was carried out at whole fund level. Given that the same underlying model is used for all employers when setting contribution rates, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy Framework which is available on the Fund's website:
Responsible Investment Beliefs Statement

Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the Funding Strategy Statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the Fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the Fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2023

Time period	Percentile	Asset class annualised total returns									Inflation/Yields		
		Index Linked Gilts (long)	Property	Infrastructure Debt	Infrastructure Equity	Diversified Growth Fund (High Beta)	Multi Asset Credit	Overseas equities	Private Lending	A Credit (14 year maturity	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th	0.4%	1.2%	2.4%	2.4%	2.6%	4.0%	1.4%	4.8%	2.7%	0.9%	-0.3%	2.7%
	50th	2.7%	6.2%	5.0%	7.8%	7.0%	5.9%	7.6%	7.6%	4.3%	2.5%	0.9%	4.1%
	84th	5.4%	11.5%	7.1%	13.2%	11.3%	7.7%	13.7%	10.3%	5.8%	4.1%	2.2%	5.9%
20 years	16th	0.7%	2.7%	3.7%	3.9%	3.9%	4.7%	3.1%	5.7%	3.7%	0.7%	-0.5%	1.4%
	50th	2.4%	6.4%	5.3%	7.9%	7.1%	6.3%	7.7%	7.8%	4.7%	2.3%	1.3%	3.4%
	84th	4.2%	10.3%	6.8%	12.0%	10.6%	7.9%	12.5%	9.8%	5.8%	3.9%	2.9%	5.9%
40 years	16th	0.9%	3.2%	3.7%	4.5%	4.3%	4.5%	4.0%	5.7%	3.4%	0.6%	-0.6%	1.2%
	50th	2.3%	6.2%	5.1%	7.7%	7.0%	6.1%	7.4%	7.6%	4.4%	2.0%	1.3%	3.3%
	84th	4.0%	9.5%	6.5%	11.1%	9.9%	8.1%	11.2%	9.7%	5.8%	3.5%	3.2%	6.1%
	Volatility (5yr)	8%	15%	8%	15%	13%	6%	18%	9%	6%	3%	-	-

ESS assumptions are calibrated at each month end. Contribution rate assessments carried out after 31 March 2023 (for new employers joining the Fund) will use the most up to date calibration of the ESS.

D3 What financial assumptions were used?

Future investment returns and discount rate

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate (pa)
Ongoing basis	All employers	1.6%

Discount rate (for funding level calculation as at 31 March 2023 only)

For the purpose of calculating a funding level at the 2023 valuation, a discount rate of 5.2% pa applies. This is based on a prudent estimate of investment returns, specifically, that there is a 75% likelihood that the Fund's assets will achieve future investment returns of 5.2% pa over the 20 years following the 2023 valuation date.

Pension increases and CARE revaluation

Increases to pensions in payment, deferred benefits and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model.

For funding level calculations, the CPI assumption is based on the median value from the ESS model over a time horizon consistent with that used to derive the discount rate. The median value of CPI inflation from the ESS was 2.3% pa on 31 March 2023.

Salary growth.

The salary increase assumption at the latest valuation has been set to 0.7% pa above CPI plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the Fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2022 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies. The smoothing parameter used in the CMI model is 7.0.

A weighting of 0% has been applied to 2020 and 2021 data within the model to avoid overstating the impact of the Covid-19 pandemic on future life expectancy. However, a weighting of 25% has been applied to 2022 data reflecting emerging data on the longer term impact of the pandemic and a wider slowdown in life expectancy improvements.

Other demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 85% for males and 60% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	70% of maximum tax-free cash
50:50 option	1% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.21	375.19	506.51	0.00	0.00	0.00	0.00
25	117	0.21	247.83	344.57	0.11	0.02	0.13	0.02
30	131	0.26	175.79	237.32	0.21	0.03	0.23	0.03
35	144	0.30	137.32	185.39	0.41	0.14	0.46	0.15
40	154	0.51	110.5	149.17	0.62	0.26	0.69	0.24
45	164	0.86	64.58	122.06	0.99	0.51	1.09	0.49
50	174	1.37	50.03	94.55	1.86	1.31	2.59	1.45
55	179	2.15	48.05	90.82	5.83	4.52	4.67	3.11
60	184	3.86	42.8	80.89	9.91	6.97	3.87	2.65
65	185	6.44	0	0	18.92	13.49	0	0

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.11	256.99	321.85	0.00	0.00	0.00	0.00
25	117	0.11	172.88	216.51	0.16	0.13	0.09	0.1
30	131	0.16	144.88	181.44	0.21	0.18	0.12	0.13
35	144	0.27	89.25	156.49	0.41	0.34	0.24	0.25
40	154	0.44	74.23	130.15	0.61	0.51	0.36	0.37
45	164	0.71	61.11	107.14	0.82	0.68	0.48	0.5
50	174	1.04	46.56	81.64	1.5	1.23	1.11	1.13
55	179	1.37	43.56	76.37	5.47	4.43	2.32	2.35
60	184	1.75	35.02	61.4	11.52	9.3	2.38	2.4
65	185	2.25	0	0	20.73	16.76	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?

Please refer to the Fund's cessation policy in Appendix E for further information.

Appendix E – Policy on cessations

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework and the Fund's discretionary policies (see below).

E1 Aims and Objectives

The Administering Authority's aims and objectives related to this policy are as follows:

To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.

To provide information about how the Fund may apply its discretionary powers when managing employer cessations.

To outline the responsibilities of (and flexibilities for) exiting employers, the Administering Authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

E2 Background

As described on page 34, a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the Administering Authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit and is liable for any surplus through the payment of an exit credit.

E3 Guidance and regulatory framework

The Local Government Pension Scheme (Scotland) Regulations 2018 contain relevant provisions regarding employers leaving the Fund (Regulation 61) and include the following:

- Regulation 61 (2) – this regulation states that, where an employing authority ceases to be a scheme employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from, or the exit credit payable to, the exiting employer.

- Regulation 61 (3) – the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer will have one or more active members contributing to the Fund within the period specified in the suspension notice.

- Regulation 61 (4B-4G) – the Administering Authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of a cessation debt despite having no active members.

- Regulation 61 (5) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining Fund employers may be amended.

- Regulation 61 (6) – where it is believed a scheme employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
- Regulation 61 (7) – following the payment of an exit amount to/from the Fund, no further payments are due to the Fund from the exiting employer.
- Regulation 61B (1) – the Administering Authority may set out a policy on spreading exit payments.

In addition to the 2018 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

These regulations relate to all employers in the Fund.

E4 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- It is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- The Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per the FSS). This would extinguish any liability to the Fund by the exiting employer.
- The Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers who are ultimately responsible for meeting any additional costs arising in respect of the pension obligations of ceased employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of any cessation debt.

E5 Policies

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 exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see section 5.2 below).

In circumstances where there is a surplus, the Administering Authority will pay an exit credit to the exiting employer in line with the Regulations.

If there is any doubt about the applicable LGPS benefit structure at the date of exit, the Fund's actuary may include an estimate of the possible impact of any resulting benefit changes when calculating an employer's pension liabilities to determine the level of any exit debt or credit.

E5.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as summarised below:

Local Authorities, Police, Fire	Risk-based cessation approach[1]	Shared between other Fund employers
Colleges	Risk-based cessation approach[1]	Shared between other Fund employers
Admission bodies ("TABs" – typically contractors)	Ongoing basis[2]	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies ("CABs" – typically any ABs other than contractors)	Risk-based cessation approach	Shared between other Fund employers (if no guarantor exists)

[1]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 (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the Administering Authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on the risk-based cessation approach.

Risk-based cessation approach

The Fund uses a risk-based approach to set employer funding strategies, including within cessation calculations. In particular, the likelihood of the Fund's assets achieving particular future investment returns is analysed.

Where appropriate, the Fund will use this approach to set an upper and lower amount (or "corridor") in order to consider the amount of assets a ceasing employer must leave behind to pay for its members' benefits.

Under this approach, an employer is deemed to have a deficit if its assets are below the lower amount and a surplus if its assets are above the higher amount (ie there will be no deficit or surplus if a ceasing employer's assets fall within the "corridor").

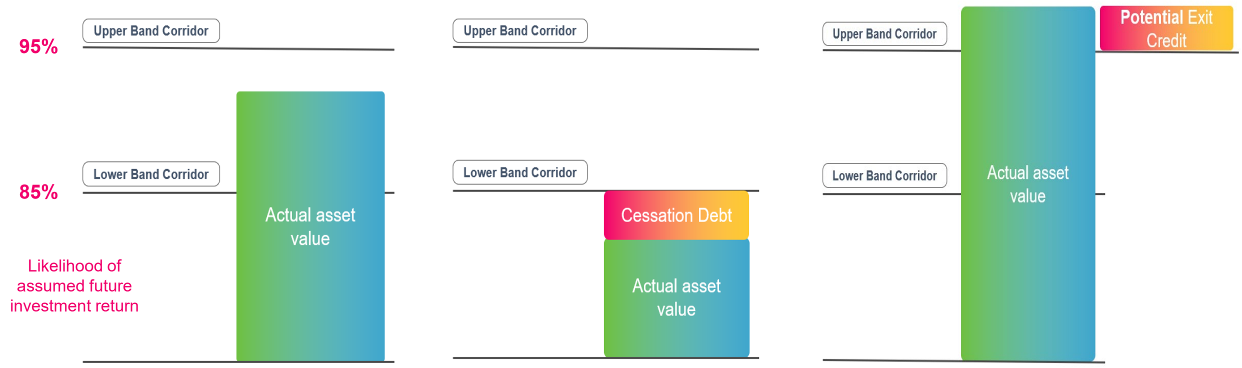
The upper bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using an investment return assumption that is expected to be achieved in 95% of outcomes over the next 20 years (based on the Fund's investment strategy at the calculation date).

The lower bound of the corridor is defined as the assets required to meet liabilities, where the liabilities have been calculated using an investment return assumption that is expected to be achieved in 85% of outcomes over the next 20 years (based on the Fund's investment strategy at the calculation date).

When calculating the liabilities, all other financial and demographic assumptions are as set out in the Funding Strategy Statement except for future longevity improvements, where a long-term improvement of 1.75% pa is assumed.

The Administering Authority reserve the right to adopt alternative assumptions if felt necessary to protect the interests of the Fund.

The picture below illustrates how the corridor operates in practice.



The Fund reserves the right to review the definition of the corridor as part of any review of this policy.

E5.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The Fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the Fund's policy is:

- The agreed spreading period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer when determining an appropriate spreading period.
- The exiting employer may be asked to provide the Administering Authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within three months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would consider the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund reserves the right to require that the exiting employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, to be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by Fund Officers, in consultation with the Chair, if an urgent decision is required between Committee meetings.
- All costs of the arrangement are to be met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

Deferred debt agreement (DDA)

When an exiting employer is unable to pay the required cessation payment as a single lump sum, the Fund's preferred policy is to spread the payment via a DSA (see above). However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 61 (4B)).

Where a DDA is in place, the employer must continue to meet all regulatory and Fund-specific requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing (including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis with the Fund seeking actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement to be met by the employer, such as the cost of advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active Fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The Administering Authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their exit basis).

- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

E6 Practicalities and process

E6.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- Advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body, where typically a 3 month notice period is required, or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- Provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- Provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).
- Meet the cost of all fees and charges incurred by the Fund during cessation including, but not limited to, the cost to obtain the cessation valuation report from the Fund Actuary and the cost of implementing a flexible repayment option.

E6.2 Responsibilities of Administering Authority

The Administering Authority will gather information as required including, but not limited to, the following:

- Details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
- Complete membership data for the outgoing employer and identify changes since the previous formal valuation.
- The likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- Identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- Commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.

- Where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation, through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- Where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- Having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

E6.3 Responsibilities of the actuary

Following commission of a cessation valuation by the Administering Authority, the Fund actuary will:

- Calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, considering the principles set out in this policy.
- Provide actuarial advice to the Administering Authority on how any cessation deficit should be recovered, considering the circumstances of the employer and any information collected to date in respect to the cessation.
- Where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

E7 Related Policies

The Fund's approach to exiting employers is set out in the FSS, specifically "What happens when an employer leaves the Fund?" on page 34.

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

Independent auditor's report to the members of 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

I certify that I have audited the financial statements in the annual report of Dumfries and Galloway Council Pension Fund for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, Net Assets Statement and notes to the accounts, including a summary of material accounting policy information. 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 2023/24 (the 2023/24 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2024 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 2023/24 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 3 April 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

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

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

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

Risks of material misstatement

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

Responsibilities of the Chief Financial Officer and Pensions Sub-Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer 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 Chief Financial Officer 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 Chief Financial Officer is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;

- inquiring of the Chief Financial Officer and Treasury and Capital Manager as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;

- inquiring of the Chief Financial Officer and Treasury and Capital Manager concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;

- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

Reporting on other requirements

Other information

The Chief Financial Officer is responsible for the 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 my auditor's report thereon.

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

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

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

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and

- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Fiona Mitchell-Knight FCA,
Audit Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

Fund Account

2022/23 £000		2023/24 £000	Note

	Dealings with members, employers and others directly involved in the scheme		
(34,916)	Contributions	(38,153)	7
(1,077)	Transfers in from other pension funds	(2,322)	8
(35,993)		**(40,475)**	
35,387	Benefits	39,775	9
39,756	Payments to and on account of leavers	1,430	10
75,143		**41,205**	
39,150	**Net (additions) / withdrawals from dealing with Members**	**730**	
3,557	Management expenses	4,168	11
42,707	**Net (additions) / withdrawals including fund management expenses**	**4,898**	
	Return on investments		
(10,516)	Investment income	(18,249)	12
61,339	(Profit) and losses on disposal of investments and changes in the market value of investments	(90,203)	14(a)
50,823	**Net return on investments**	**(108,452)**	
93,530	**Net (increase)/ decrease in the net assets available for benefits during the year**	**(103,554)**	
(1,097,921)	**Opening net assets of the scheme**	**(1,004,391)**	
(1,004,391)	**Closing net assets of the scheme**	**(1,107,945)**	

Net Assets Statement

2022/23 £000		**2023/24 £000**	**Note**
992,381	Investment assets	1,090,624	14
0	Cash deposits	14,186	14
992,381	**Total investment assets**	1,104,810	
0	Investment liabilities	0	14
992,381	**Total net investments**	1,104,810	
12,352	Current assets	4,858	20
(342)	Current liabilities	(1,723)	21
1,004,391	**Net assets of the fund available to fund benefits at the period end**	**1,107,945**	

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 19 September 2024.

Gillian Ross
Interim Chief Financial Officer

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 3 in the Fund:
  - Dumfries and Galloway College,
  - 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 College (Barony).
  - Greystone Rovers
  - Sodexo

Membership Details as at 31 March 2024

31 March 2023		31 March 2024
	Number of employers with active members	
	Number of active members in scheme:	
6,122	Dumfries and Galloway Council	6,514

433		Other employers	421	
	6,555	**Total**		**6,935**
		Number of pensioners / dependants:		
4,192		Dumfries and Galloway Council	4,446	
1,452		Other employers	1,427	
	5,644	**Total**		**5,873**
		Number of deferred pensioners:		
4,934		Dumfries and Galloway Council	5,287	
724		Other employers	611	
	5,658	**Total**		**5,898**
	17,857	**Scheme total**		**18,706**

	Number of Contributors	**Number of Pensioners**	**Number of Deferred Pensioners**
Dumfries and Galloway Council	6,514	4,446	5,287
Dumfries and Galloway College	177	154	226
Scottish Police Authority	149	100	50
Scottish Fire & Rescue Service	15	16	13
The Crichton Trust	55	27	57
Park Homes	1	1	1
Amey plc	13	19	12
Scotland’s Rural College (Barony)	7	43	61
Greystone	2	0	0
Sodexo	2	2	1
Renewi plc	0	11	4
Lovell plc	0	12	2
Former Dumfries & Galloway Arts Association	0	4	7
Former Solway Heritage	0	6	9
Former Annandale & Eskdale Sports & Leisure Trust	0	6	9
Former Connaught plc	0	12	30
Former Dumfries & Galloway Regional Council	0	665	78
Former Annandale & Eskdale District Council	0	57	8
Former Nithsdale District Council	0	105	13
Former Stewartry District Council	0	27	8
Former Wigtown District Council	0	56	4
Crichton Foundation	0	1	2
Community Integrated Care	0	97	14
Former Solway River Purification Board	0	1	1
Former Dumfries Town Centre Management	0	5	1
	6,935	**5,873**	**5,898**

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 2024.

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 2023/24. Additional monetary payments towards deficit recovery were also set.

The most current valuation took place as at 31 March 2023. Employers' contributions set in the March 2023 valuation come into effect on 1 April 2024.

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 2023/24 financial year and its position at the year end of 31 March 2024. 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 on a going concern basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the Local Government Pension Scheme Fund Accounts 2022/23 - 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 Material 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 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.

It has been decided to recognise investment management costs that are deducted from the value of an investment and recognised this as a cost in the Fund Account rather than as a reduction in the change in market value of investments. These management costs, and those that are invoiced directly to the Fund are disclosed in Note 11.

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 2024 (2022/23 nil). The Fund does not hold derivatives for speculative purposes.

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) Contingent assets and contingent liabilities
A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the Balance Sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

p) 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.

q) 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. There are currently no new accounting standards in relation to the Pension Fund that have been issued and not adopted.

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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.

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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 2024 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 current net pension liability of £1,013M of changes in assumptions are as follows: • 0.1% p.a. increase in the pension increase rate would result in an increase of approx. £16M to liabilities (2%) • 0.1% p.a. increase in salary rate would result in an increase of approx. £1M to liabilities (0%) • 0.1% p.a decrease in the discount rate assumption would result in an increase of approx. £17M to liabilities (2%). • 1 year increase in life expectancy would result in an increase in liabilities of £41M (4%)
Level 2 investments	Investments are valued by the Fund Manager using critical accounting estimates and judgements from the fund's financial statement. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	While the Fund is satisfied that this reflects the appropriate value of investments as at 31 March 2024, changes in underlying assumptions could impact the valuation over the next 12 months. The Fund has carried out sensitivity analysis of investments, shown in Note 17.
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, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	While the Fund is satisfied that this reflects the appropriate value of investments as at 31 March 2024, changes in underlying assumptions could impact the valuation over the next 12 months. The Fund has carried out sensitivity analysis of investments, shown in Note 17.

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 Interim Chief Financial Officer on 19 September 2024. 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

2022/23 £000		2023/24 £000
7,468	**Employees' contributions**	**8,093**
	Employers' contributions	
27,387	Employers' normal contributions	29,735
54	Employers' deficit recovery contributions	54
7	Employers' augmentation contributions	271
27,448		**30,060**
34,916	**Total**	**38,153**

By authority

2022/23 £000		2023/24 £000
31,936	Dumfries and Galloway Council	34,908
2,429	Scheduled Bodies	2,689
551	Admitted Bodies	556
34,916	**Total**	**38,153**

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:

2022/23 £000		2023/24 £000
1,077	Individual transfers	**2,322**

9. Benefits Payable

By Category

2022/23 £000		2023/24 £000
28,598	Pensions	31,743
5,701	Commutation and lump sum retirement benefits	7,517
1,088	Lump sum death benefits	515
35,387	**Total**	**39,775**

By authority

2022/23 £000		2023/24 £000
30,966	Dumfries and Galloway Council	35,432
3,059	Scheduled Bodies	3,029
1,362	Admitted Bodies	1,314
35,387	**Total**	**39,775**

10. Payments to And on Account of Leavers

2022/23 £000		2023/24 £000
62	Refunds to members leaving service	57
1,769	Individual transfers	1,373
37,925	DGHP Transfer to Strathclyde Pension Fund*	0
39,756	**Total**	**1,430**

* On 28 February 2022 DGHP Transferred their Membership to Strathclyde Pension Fund, The final transfer value agreed was £37.925 Million and was paid in two payments, the initial payment 21 December 2022 and true up payment on 29 March 2023.

11. Management Expenses

2022/23 £000		2023/24 £000
	Administrative costs	
312	• Central administration charge	323
188	• System costs	191
22	• Other expenses	77
522		**591**
	Investment management expenses	
209	• External management fees - –invoiced	254
2,642	• External management fees – deducted from capital	3,061
2,851		**3,315**
	Oversight and governance costs	
60	• Central administration charge	61
7	• Actuarial fees	82
58	• Investment consultancy fees	66
20	• Performance measurement	20
30	• External Audit fees	32
9	• Other expenses	1
184		**262**
3,557	**Total**	**4,168**

12. Investment Income

2022/23 £000		2023/24 £000
4,972	Pooled investments – unit trusts and other managed funds	12,301
4,471	Pooled property investments	5,028
961	Diversified growth	497
112	Interest on cash deposits	423
10,516	**Total**	**18,249**

13. External Auditors Remuneration

In 2023/24 the agreed audit fee for the year was £32,150 (2022/23 £30,330). There were no non-audit fees payable in the year.

14. Investments

2022/23 £000		2023/24 £000
	Investment assets	
	Pooled Funds	
171,895	Bonds	158,554
102,197	UK Equities	0
464,522	Global Equities	545,038
73,848	Alternative Income	85,936
0	Multi Asset Credit	123,534
91,943	Diversified growth	64,601
904,405		**977,663**
	Other Investments	
87,976	Pooled property investments	112,961
0	Cash awaiting investment	14,186
992,381	**Total investment assets**	**1,104,810**
	Investment liabilities	
0	**Total investment liabilities**	**0**
992,381	**Net investment assets**	**1,104,810**

14(a). Reconciliation of Movements in Investments

	Market value at 1 April 2023	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2024
Pooled Funds	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	171,895	104,706	(122,158)	4,111	158,554
Equities	102,197		(103,671)	1,474	0
Global Equities	464,522		(11,000)	91,516	545,038
Diversified Growth	91,943	60	(30,000)	2,598	64,601
Alternative Income	73,848	17,192	0	(5,104)	85,936
Multi Asset Credit	0	120,000	0	3,534	123,534
Pooled property investments	87,976	32,911	0	(7,926)	112,961
	992,381	**274,869**	**(266,829)**	**90,203**	**1,090,624**
Other investment balances:					
Cash awaiting investment	**0**				**14,186**
Amounts receivable for sale of investments	**0**				**0**
Investment income due	**0**				**0**
Amounts payable for purchase of investments	**0**				**0**
Net investment assets	**992,381**				**1,104,810**

	Market value at 1 April 2022	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2023
	£000	**£000**	**£000**	**£000**	**£000**
Bonds	163,895	71,105	(70,871)	7,766	171,895
Equities	192,895	213,017	(265,276)	(38,439)	102,197
Global Equities	465,160	497,165	(502,150)	4,347	464,522
Diversified growth	105,877	66	(5,000)	(9,000)	91,943

Alternative Income	62,481	16,385	0	(5,018)	73,848
Pooled property investments	105,763	3,208	0	(20,995)	87,976
	1,096,071	**800,946**	**(843,297)**	**(61,339)**	**992,381**
Other investment balances:					
Cash awaiting investment	**0**				**0**
Amounts receivable for sale of investments	**0**				**0**
Investment income due	**317**				**0**
Amounts payable for purchase of investments	**0**				**0**
Net investment assets	**1,096,388**				**992,381**

14(b). Analysis of Investments

2022/23		**2023/24**
£000		**£000**
	Pooled funds – additional analysis	
	UK	
154,336	Fixed income unit trusts	158,554
102,197	Equities	0
	Overseas	
17,559	Fixed income	0
464,522	Equities	545,038
	Other	
73,848	Strategic Alternative Income	85,936
0	Multi Asset Credit	123,534
812,462		**913,062**
87,976	Pooled property investments	112,961
91,943	Diversified growth	64,601
179,919		**177,562**
0	Investment income due	**0**
0	Cash awaiting investment	**14,186**
992,381	**Total investment assets**	**1,104,810**
	Investment liabilities	
0	Amounts payable for purchases	0
0	**Total investment liabilities**	**0**
992,381	**Net investment assets**	**1,104,810**

14(c). Investments Analysed by Fund Manager

Market Value 31 March 2023 £000	**%**		**Market Value 31 March 2024 £000**	**%**
738,614	74.4%	Legal & General Investment Management	703,591	63.7%
91,943	9.2%	Baillie Gifford	64,601	5.8%
0	0.0%	M&G	29,067	2.6%
0	0.0%	Barings	123,534	11.2%
28,743	2.9%	Lothbury Investment Management	25,472	2.3%
32,058	3.2%	Columbia Threadneedle Asset Management	32,109	2.9%
101,023	10.3%	BlackRock Investment Management (UK)	126,436	11.4%

992,381	**1,104,810**

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 2023 £000	**%**	**Security**	**Market Value 31 March 2024 £000**	**%**
102,197	10.3%	Legal & General - UK Equity Index	0	0.0%
230,287	23.2%	Legal & General – Future World Equity Index	267,642	24.2%
101,757	10.3%	Legal & General – Future World Bond Index	109,565	9.9%
234,235	23.6%	Legal & General - RAFI	277,395	25.1%
52,579	5.3%	Legal & General – Index Linked Gilts	0	0.0%
91,943	9.3%	Baillie Gifford – Diversified Growth Fund	64,601	5.8%
0	0.0%	Barings – High Yield Credit Strategy Fund	123,534	11.2%
73,848	7.4%	BlackRock – Strategic Alternative Income Fund	100,122	9.1%

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
Cash & Cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments.	Not required	Not required
Market quoted investments	Level 2	Closing bid price ruling on the final day of the accounting period	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Quoted bonds	Level 2	Closing bid price ruling on the final day of the accounting period	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Pooled investments –	Level 2	Closing bid price where bid and offer prices are	Net Asset Value (NAV) based	Not required

overseas unit trusts and property funds		published. Closing single price where single price published.	pricing set on a forward pricing basis	
High Yield Credit Fund	Level 2	Monthly closing NAV obtained from Fund Manager	Net Asset Value (NAV) is a mixture of quoted, listed and traded prices as well as external valuation by independent valuers	Not required
Pooled investments property – funds which are not listed	Level 3	Financial statements or other market indicators or information are used to calculate valuation	The following is used: estimated rental growth, covenant strength for existing tenancies, discount rate, land/building valuation survey	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Strategic Alternative Income Fund	Level 3	Closing NAV supplied by Fund Manager	Net Asset Value (NAV) based on a forward pricing basis, cash flow modelling and discount rates	Changes in cash flow modelling and assumptions used

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 2024.

	Assessed valuation range (+/-) %	Value at 31 March 2024 £000	Value on increase £000	Value on decrease £000
Property (a)	5.4%	112,961	119,061	106,861
Strategic Alternative Income (b)	4.1%	85,936	89,459	82,413

	Assessed valuation range (+/-) %	Value at 31 March 2023 (restated) £000	Value on increase £000	Value on decrease £000
Property (a)	11.9%	87,976	98,410	77,542
Strategic Alternative Income (b)	3.1%	73,848	76,137	71,559

(a) the potential movement represents a combination of the following factors, which could all move independently of in different directions: rental increases, vacancy rates, market prices and discount rates
(b) Derives from the change in the underlying profitability of the component companies

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. The 2022/23 values have been restated following review of the fair value hierarchy levels associated with each investment.

		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2024		**Level 1**	**Level 2**	**Level 3**	**Total**
		£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss					
Pooled	Fixed income		158,554		158,554
	Overseas Equities		545,038		545,038
	Property			112,961	112,961
	Alternative Income	14,186		85,936	100,122
	Multi Asset Credit		123,534		123,534
	Diversified Growth		64,601		64,601
Total financial assets		**14,186**	**891,727**	**198,897**	**1,104,810**
Financial liabilities at fair value through profit and loss		0	0	0	0
Net investment assets		**14,186**	**768,193**	**322,431**	**1,104,810**

		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2023 (restated)		**Level 1**	**Level 2**	**Level 3**	**Total**
		£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss					
Pooled	Fixed income		154,336		154,336
	UK Equities	102,197			102,197
	Overseas fixed income		17,559		17,559
	Overseas Equities		464,522		464,522
	Property			87,976	87,976
	Alternative Income			73,848	73,848
	Diversified Growth		91,943		91,943
Total financial assets		**102,197**	**728,360**	**161,824**	**992,381**

Financial liabilities at fair value through profit and loss	0	0	0	0
Net investment assets	**256,533**	**662,000**	**73,848**	**992,381**

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

	Market value at 1 April 2023	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2024
	£000	£000	£000	£000	£000
Property	87,976	32,911	0	(7,926)	112,961
Strategic Alternative Income	73,848	17,192	0	(5,104)	85,936
	Market value at 1 April 2022 (restated)	**Purchases during the year**	**Sales during the year**	**Change in market value during the year**	**Market value at 31 March 2023**
	£000	**£000**	**£000**	**£000**	**£000**
Property	105,763	3,208	0	(20,995)	87,976
Strategic Alternative Income	62,481	16,385	0	(5,018)	73,848

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 2023				31 March 2024	
£000	£000	£000		£000	£000	£000
			Financial assets			
171,895			Bonds	158,554		
102,197			UK Equities	0		
464,522			Global Equities	545,038		

87,976			Pooled Property Investments	112,961		
			Multi Asset Credit	123,534		
73,848			Alternative Income	85,936		
91,942			Diversified Growth Fund	64,601		
			Cash awaiting investment	14,186		
	493		Cash at bank		2,020	
	11,859		Debtors		2,838	
992,381	**12,352**	**0**		**1,104,810**	**4,858**	**0**
			Financial liabilities			
		(342)	Creditors			(1,723)
0	**0**	**(342)**		**0**	**0**	**(1,723)**
992,381	**12,352**	**(342)**		**1,104,810**	**4,858**	**(1,723)**

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

2022/23 £000		**2023/24 £000**
	Financial assets	
(61,339)	Fair value through profit and loss	90,203
0	Loans and receivables	0
	Financial liabilities	
0	Fair value through profit and loss	0
0	Loans and receivables	0
(61,339)	**Total**	**90,203**

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 2024. 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 2024.

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 2023/24 reporting period.

Asset Type	**Potential Market Movements (+/-)**	
	2022/23	**2023/24**
	%	**%**
UK fixed income unit trusts	12.06	9.07
Overseas fixed income unit trusts	9.21	0.00
UK pooled funds	14.32	0.00
Overseas pooled funds	13.29	11.92
Pooled property investments	11.86	5.36
Multi Asset Credit	0.00	7.25
Alternative Income	3.09	4.10
Diversified growth	10.00	8.80
Cash	0.00	0.00

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 2024	**Potential Market Movement**	**Value on Increase**	**Value on Decrease**
	£000	**£000**	**£000**	**£000**
Cash and cash equivalents	16,206	0	16,206	16,206
Investment portfolio assets:				
UK fixed income unit trusts	158,554	14,381	172,935	144,173
Overseas Equities	545,038	64,968	610,006	480,070
Pooled property investments	112,961	6,055	119,016	106,906
Multi Asset Credit	123,534	8,956	132,490	114,578
Alternative Income	85,936	3,523	89,459	82,413
Diversified growth	64,601	5,685	70,286	58,916
Total	**1,106,830**	**103,568**	**1,210,398**	**1,003,262**

	Value as at 31 March 2023	**Potential Market Movement**	**Value on Increase**	**Value on Decrease**
	£000	**£000**	**£000**	**£000**
Cash and cash equivalents	493	0	493	493

Investment portfolio assets:				
UK fixed income unit trusts	154,336	18,613	172,949	135,723
Overseas fixed income unit trusts	17,559	1,617	19,176	15,942
UK Equities	102,197	14,635	116,832	87,562
Overseas Equities	464,522	61,735	526,257	402,787
Pooled property investments	87,976	10,434	98,410	77,542
Alternative Income	73,848	2,282	76,130	71,556
Diversified growth	91,943	9,194	101,137	82,749
Total	**992,874**	**118,510**	**1,111,384**	**874,364**

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 2024	Potential Movement On 1% Change in Interest Rates	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash deposits	1,764	18	1,782	1,746
Cash balances	256	0	256	256
Fixed income securities	158,554	1,586	160,140	156,968
Total	**160,574**	**1,604**	**162,178**	**158,970**

Assets Exposed to Interest Rate Risk	Value as at 31 March 2023	Potential Movement On 1% Change in Interest Rates	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and cash equivalents				
Cash balances	493	0	493	493
Fixed income securities	154,336	1,543	155,879	152,793
Total	**154,829**	**1,543**	**156,372**	**153,286**

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 £17,640.

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 7.92% for bonds and equities, as measured by one standard deviation (8.90% in 2022/23). This analysis assumes that all other variables, in particular interest rates, remain constant.
A 7.92 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 2024 £000	Potential Market Movement £000	Value on Increase £000	Value on Decrease £000
Overseas unit trusts	545,038	43,167	588,205	501,871
Total change in assets available to pay benefits	**545,038**	**43,167**	**588,205**	**501,871**

	Value as at 31 March 2023 £000	Potential Market Movement £000	Value on Increase £000	Value on Decrease £000
Overseas fixed income unit trusts	17,559	1,563	19,122	15,996
Overseas unit trusts	464,522	41,342	505,864	423,180
Total change in assets available to pay benefits	**482,081**	**42,905**	**524,986**	**439,176**

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 2024, including current account cash, was £2.020 Million (31 March 2023: £0.493 Million).

Balances as at 31 March 2023 £000	Summary	Rating	Balances as at 31 March 2024 £000
	Bank deposit accounts		
0	Bank of Scotland	**A+**	1,764
	Bank current accounts		

493	Bank of Scotland	A+	0
0	Royal Bank of Scotland	A+	256
493	**Total**		**2,020**

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 2024, the Fund's only illiquid assets under this definition are some of the Pooled Property Investments and the SAIF fund, with a value of £213.1 Million, or 19.3% of the total fund assets. (31 March 2023, £161.8Million, or 16.3% of the total fund assets).

All financial liabilities at 31 March 2024 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 2023.

The funding policy is set out in the Dumfries and Galloway Council Funding Strategy Statement (FSS), effective from 1 April 2024 (see page 29).

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 2023 valuation showed that the Pension Fund's assets were valued at £1,003 Million (2020 valuation: £826 Million). This was sufficient to meet 122% (92% at 31 March 2020 valuation) of the £824 Million liabilities (i.e., the present value of promised retirement benefits) accrued up to that date (2020 valuation: £900 Million). The resulting surplus at the 2023 valuation was £178 Million (2020 valuation: £75 Million deficit).

The long-term employers' contribution rate was estimated on an individual employer basis except for those who were pooled with other linked employers. The Crichton Trust and Greystone Rovers are pooled together with Dumfries and Galloway Council, Sodexo are pooled together with Scottish Fire & Rescue. Individual employer contribution rates were reduced marginally to account for the surplus position of the fund. A very prudent approach was taken to this and the reductions remained within the agreed stabilisation mechanism, (for those employers where this applies). Employers' contribution rates for 2023/24 and for the three years to March 2027 resulting from the 2023 valuation are as shown in the following table:

	Employer contribution rates			
Employer	**Year to March 2024**	**Year to March 2025**	**Year to March 2026**	**Year to March 2027**
Dumfries & Galloway Council Pool	22.0%	21.0%	20.0%	19.0%
Dumfries & Galloway College	22.7%	16.6%	16.6%	16.6%
Scottish Police Service	23.5%	22.1%	20.7%	19.3%
Scottish Fire & Rescue	22.6% + £54k	21.0% + £47k	21.0% + £48k	21.0% + £50k
Park Homes	38.9%	31.0% + £6k	31.0% + £6k	31.0% + £6k
Amey plc	27.6 %	21.3%	21.3%	21.3%
Scotland’s Rural College (Barony)	36.0%	23.1%	23.1%	23.1%

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 2023 valuation were as follows:

	31 March 2023	
Financial Assumptions	**% per annum Nominal**	**% per annum Real**
Discount rate	5.2	3.4%
Pay increases	3.0%	2.5%
Price inflation / pension increases	2.3%	1.7%

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	20.6 years	23.2 years
Retiring in 20 years	21.2 years	24.9 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.

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 2023 £m		31 March 2024 £m
(968)	Present value of promised retirement benefits	(1,013)
1,004	Fair value of scheme assets (bid value)	1,108
36	**Total Investment Assets**	**95**

As noted above, the liabilities above are calculated on an IAS19 basis and therefore will differ from the results of the 2023 triennial funding valuation (see note 18) because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used:

	2022/23 %	2023/24 %
Inflation / pension increase rate assumption	2.95	2.75
Salary increase rate	3.75	3.45
Discount rate	4.75	4.85

20. Current Assets

31 March 2023 £000		31 March 2024 £000
	Debtors	
31	• Contributions due – employees	30
113	• Contributions due – employers	117
11,715	• Sundry debtors	2,691
11,859		**2,838**
493	Cash balances	**2,020**
12,352		**4,858**

Analysis of debtors

31 March 2023 £000		31 March 2024 £000
0	Other local authorities	0
11,688	Public corporations and trading funds	2,838
171	Other entities and individuals	0
11,859		**2,838**

21. Current Liabilities

31 March 2023 £000		31 March 2024 £000
292	Sundry creditors	1,638
50	Benefits payable	85
342		**1,723**

Analysis of creditors

31 March 2023 £000		31 March 2024 £000
7	Central government bodies	1,356
0	Other local authorities	0
335	Other entities and individuals	367
342		**1,723**

22. Additional Voluntary Contributions

Market Value 31 March 2023 £000		Market Value 31 March 2024 £000
622	Standard Life	794
45	Aegon (Scottish Equitable)	52
667		**846**

AVC contributions of £153k were paid directly to Standard Life during the year (2022/23, £92k) and £0.0k paid directly to Aegon during the year (2022/23, £0.0k).
During the year the Council offered all employees the opportunity to participate in a salary sacrifice Shared Cost Additional Voluntary Contribution (SCAVC) scheme. This new scheme is being administered by Money Matters and investments are placed with Standard Life. No money was invested in Standard Life during the financial year to 31st March 2024, however, deductions were taken from employees in March totalling £10k.

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:

2022/23 £000		2023/24 £000
2,581	Dumfries and Galloway Council	2,781
86	Other employers	93
2,667		**2,874**

24. Related Party Transactions

Dumfries and Galloway Council

All employer member bodies are by nature related parties of the Fund. 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. Note 7 outlines the pension contributions paid by the Council, as administering authority, to the Fund in relation to 2023/24.

The Pension Fund was charged £384k (£372k in 2022/23) 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 £27.251 Million to the fund in 2023/24 (2022/23 £25.067 Million).

As at 31 March 2024, the Pension Fund had a net intercompany creditor of £1.355M (31 March 2023 £0.007M) representing sums due to Dumfries and Galloway Council. This balance is made up of the March outstanding retirement benefits payable by the Pension Fund to Dumfries and Galloway Council (£2.784M), less the contributions due to the Pension Fund from Dumfries and Galloway Council (£1.429M).

Governance
There are 8 members of the Pension Sub Committee who were active members of the Pension Fund as at 31 March 2024.

25. Key Management Personnel
There are no staff directly employed by Dumfries and Galloway Council Pension Fund, therefore a Remuneration Report has not been prepared. The key management personnel of the fund is the Dumfries and Galloway Council Chief Financial Officer. 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.

2022/23 £000		**2023/24 £000**
5	Recharge in respect of key management personnel	**5**

26. Contingent Assets
One 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.

27. Contractual Commitments
As at 31 March 2024 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	2023/24 £75 Million	2023/24 £36 Million
	2022/23 £75 Million	2022/23 £75 Million

Dumfries and Galloway Council Pension Fund (“the Fund”) Actuarial Statement for 2023/24

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

Description of Funding Policy
The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated January 2024. In summary, the key funding principles are as follows:

- Take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants;
- Use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency;
- Where appropriate, ensure stable employer contribution rates;
- Reflect different employers’ characteristics to set their contribution rates, using a transparent funding strategy; and
- Use reasonable measures to reduce the risk of 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 return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% 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 2014 was as at 31 March 2023. This valuation revealed that the Fund’s assets, which at 31 March 2023 were valued at £1,003 million, were sufficient to meet 122% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £178 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 2024 to 31 March 2027 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 2023 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 2023 valuation were as follows:

Financial assumptions	31 March 2023 (% p.a.)
Discount rate	5.2%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's Vita Curves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current Pensioners	20.6 years	23.3 years
Future Pensioners*	21.2 years	24.9 years

*Currently aged 45

Copies of the 2023 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2023
Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. Continued high levels of inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, asset performance has improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). Overall, the funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026. The Funding Strategy Statement will also be reviewed at that time.

Peter MacRae

For and on behalf of Hymans Robertson LLP

8 May 2024