

Falkirk Council Pension Fund

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Falkirk Council Pensions Committee and the Controller of Audit

November 2023

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Key messages

2022/23 annual accounts

- 1 Audit opinions on the annual report are unmodified.
- 2 The annual accounts of Falkirk Council Pension Fund (the Fund) give a true and fair view of the state of affairs of the Fund as at 31 March 2023 and have been properly prepared in accordance with the financial reporting framework.

Financial management

- 3 The Fund's investments decreased in value by £9 million from the previous year.
- 4 The Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance. The Fund could strengthen financial monitoring of the annual administration budget by introducing quarterly reports to the Pensions Committee.

Financial sustainability

- 5 The actuarial valuation calculated in line with accounting standards, IAS 19 resulted in a £528 million asset. The triennial valuation is ongoing but the estimated funding level for 2022/23 is 132%. This supports a well-funded position.
- 6 Fund membership levels continue to increase but the ratio of active members to pensioners has reduced over the last five years.
- 7 Cash flows in relation to members continue to be positive but the continued growth in pensioner numbers and possible changes to contribution rates will likely lead to a worsening position in the longer term.

Vision, leadership and governance

- 8 Governance arrangements are appropriate and operate effectively. Pensions Committee and Board members receive appropriate training each year, with the Fund keeping a record of this attendance.
- 9 The Fund did not report any breaches to the Pensions Regulator in year.
- 10 The Fund will be required to report in line with the Taskforce for Climate Related Financial Disclosures in the coming years. The Fund has made three commitments in relation to climate in its Statement of Responsible Investments but should familiarise itself with the TCFD requirements.

Use of resources to improve outcomes

- 11** Fund administration performance levels in 2022/23 were in line with agreed targets in most areas. They did not achieve three out of the seven targets set.
- 12** 2022/23 was a challenging year for Scottish Local Government Pension Schemes with only two of the eleven funds reporting positive movements in net assets during the year. Falkirk Pension Fund was one of only three funds who reported above benchmark returns.

Introduction

1. This report summarises the findings from the 2022/23 audit of Falkirk Council Pension Fund (the Fund). The scope of the audit was set out in our Annual Audit Plan presented to the June 2023 joint meeting of the Pensions Committee and Pension Board. This Annual Audit Report comprises:

- significant matters arising from an audit of the Fund’s annual accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.
- conclusions on the administering authority's arrangements related to the pension fund for meeting its Best Value duties.

2. This report is addressed to the Pensions Committee of Falkirk Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Pauline Gillen, have been appointed by the Accounts Commission as auditor of Falkirk Council Pension Fund for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank Pensions Committee members, senior management, and other staff of the administering authority, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. The administering authority (Falkirk Council) for the Fund has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts for the Fund that are in accordance with proper accounting practices. The administering authority is also responsible for

compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. The Chief Finance Officer, as Section 95 Officer, is responsible for the administration of financial affairs.

7. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

8. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of administering authority from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £29,450 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. We add value to the Fund by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Our audit opinions on the annual report are unmodified.

The annual accounts of Falkirk Council Pension Fund (the Fund) give a true and fair view of the state of affairs of the Fund as at 31 March 2023 and have been properly prepared in accordance with the financial reporting framework.

Audit opinions on the annual report are unmodified

12. The annual accounts for the year ended 31 March 2023 were approved by the Pensions Committee on 30 November 2023, and certified by the appointed auditor on 30 November 2023. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023 and of the amount and disposition at that date of its assets and liabilities
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with relevant guidance.

Overall materiality was assessed as £64 million

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of net investment assets.	£64 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60% of overall materiality.	£38.4 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been capped at £250,000 as this is the maximum amount allowable under Audit Scotland's audit approach guidance.	£250,000

Source: Audit Scotland

15. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

16. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the fund's accounting practices.

17. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

18. The significant findings from our audit are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Investment asset values</p> <p>As part of our financial statements audit we are required to verify the year end investment asset values in the Net Assets Statement to the underlying fund manager reports.</p> <p>We completed two procedures to obtain assurance:</p> <ul style="list-style-type: none"> • Sample testing of individual investments across each of the three valuation levels • Obtained and reviewed third party assurances from fund managers who manage funds over our performance materiality level (£38.4 million). <p>This identified differences totalling £8.3 million and £7.1 million respectively between the investment asset values within the accounts and the values per the fund managers information. In terms of the impact on the accounts, the results of our sample testing resulted in a net understatement of £3.9 million and from the agreement to fund managers a net overstatement of £2.3 million.</p> <p>Management has advised that these differences relate to the timing of when the fund manager reports were run on the 31 March 2023 and both are valid valuations at that date.</p>	<p>We have accepted management's explanation and are content that the investment assets value in the audited accounts is not materially misstated. We also note that similar timing differences have been identified in prior years.</p> <p>As the value of the difference exceeds our minimum reporting threshold it has been reported for members' information.</p>

Our audit work responded to the risks of material misstatement we identified in the annual accounts

19. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3**Significant risks of material misstatement in the annual accounts**

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Assessed the design and implementation of controls over journal entry processing. Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Tested journals at the year-end and post-closing entries and focus on significant risk areas. Considered the need to test journal entries and other adjustments during the period. Evaluated significant transactions outside the normal course of business. Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. 	<ul style="list-style-type: none"> We did not identify any significant issues through our work on journals. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business.
<p>2. Risk of material misstatement due to estimation in the valuation of complex investments</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments. As at 31 March 2023 the Fund held investments of £3.2 billion of which approximately 68% (£2.2 billion) were classified as level 2 and 3 investments. Level 3 investments have at least one input that could</p>	<ul style="list-style-type: none"> Confirmed year-end valuations to valuation reports and/or other supporting documentation, including third party confirmation. Reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk. Reviewed the arrangements in place at the Fund to assess 	<p>Our testing identified differences in the valuation of investments between what is included in the annual accounts and the valuation provided from fund managers. See Exhibit 2.</p>

Audit risk	Assurance procedure	Results and conclusions
have a significant effect on the valuation that is not based on observable market data. Changes in the valuation assumptions used could affect the net book value of the investments.	investment managers governance arrangements. <ul style="list-style-type: none"> Reviewed the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to acknowledge areas with significant judgement and estimation uncertainty. 	

20. In addition, we identified an “area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be a risk of material misstatement to the financial statements. This area of specific audit focus was:

- The actuarial valuation of retirement benefits: The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earnings assumptions. We reviewed the work of the actuary in accordance with ISA 500 and reviewed the actuarial assumptions adopted, assessing whether they were appropriate and reasonable. We found the assumptions on which the valuations were based, to be reasonable. There are no matters which we need to bring to your attention.

No further misstatements above our reporting threshold were identified

21. As set out in [Exhibit 2](#), we identified timing differences in the valuation of investments in the Fund. We are satisfied these were not material and the Fund has not adjusted for these. No further misstatements above our reporting threshold were identified through our audit that required correction.

The unaudited annual accounts were received in line with the agreed audit timetable

22. The unaudited annual accounts were received in line with our agreed audit timetable by 30 June 2023. We also received a suite of working papers which allowed us to complete our audit.

23. A trial balance was included as part of the working papers package. This is the main underlying record of the annual accounts and a key part of our audit is to agree the figures in the annual accounts to those within the financial ledger through the trial balance. Through this work we identified that the Fund does not input the year-end information provided by the Custodian into the financial ledger. The information from the Custodian largely relates to the valuation of the

Funds investments. While we were able to complete audit procedures to assure ourselves over the completeness of the accounts and accuracy of these balances, the Fund should consider including all amounts in the financial ledger.

Recommendation 1

The Fund should ensure all transactions are entered into the financial ledger to give assurance over the completeness of the annual accounts.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

The Fund's investments decreased in value by £9 million from the previous year.

The Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance. The Fund could strengthen financial monitoring of the annual administration budget by introducing quarterly reports to committee.

The value of the Fund decreased marginally to £3,195 million during 2022/23 however investment performance was 12.8 per cent above the benchmark return set for the year

24. The Fund's performance is summarised in [Exhibit 4](#). This shows that the net assets of the Fund decreased from £3,204 million at 31 March 2022 to £3,195 million at 31 March 2023. This £9 million decrease in net assets was mainly attributable to a significant swing from a profit on disposal of investments in 2021/22 to a loss in 2022/23. These market value changes contributed to a positive annual fund investment return for the year of 0.8 per cent, which was 12.8 per cent above the benchmark return for the year of -12 per cent.

25. The promised retirement benefits at 31 March 2023 have been estimated at £2,667 million (31 March 2022 – £3,900 million), showing a 31.6% decrease on the prior year. This estimate uses assumptions in line with Internal Accounting Standards (IAS) 19 requirements, for the purposes of the Fund's financial statements. It is not directly comparable to the liability measures on a funding basis.

The ongoing conflict in Ukraine and inflationary pressures have significantly increased market volatility, and there is a risk that there will be further fluctuations in the Fund value in future years, as the long-term impact of these events becomes clearer

26. When considering the investment performance of the Fund during 2022/23, in [Exhibit 4](#), it is important to recognise the impact of Covid-19 and other world events on financial markets and investments. The global impact of the

pandemic and the conflict in Ukraine has significantly increased market volatility.

27. There is a risk that there will be further market volatility and fluctuations in the value of investments in future years as the long-term impact of high inflation on economies and recent world events become clearer.

Exhibit 4

Assets, funding level and investment performance

Decrease in net assets	Funding level	Investment performance
£3,195 million	120%	7.2%
Closing net assets 31 March 2023 (-0.03%)	Net assets vs promised retirement benefits 31 March 2023	Average annual return on investments over 5 years (Benchmark: 4%)
£3,204 million	82%	0.8%
Opening net assets 1 April 2022	Net assets vs promised retirement benefits 31 March 2022	Return on investments 2022/23 (Benchmark: -12%)

Source: Falkirk Council Pension Fund 2022/23 Annual Accounts

28. Each year the Fund's actuary, Hymans Robertson, estimates pension assets/ liabilities at the accounting date as required by International Accounting Standards (IAS) 26 and calculated in line with IAS 19 requirements. There was a significant movement of £1,224 million from a liability of £696 million at 31 March 2022 to an asset of £528 million at 31 March 2023. This figure is not directly comparable to the position measured on a funding basis.

The Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance

29. The Chief Finance Officer for Falkirk Council is the Proper Officer responsible for the Fund. The financial regulations of Falkirk Council, as administering authority, apply to the Fund. We consider these to be current, comprehensive and support good financial management.

30. The 2022/23 budget for the Fund was set at £22.1 million and was approved by the Pensions Committee in March 2022 (the Project Forth budget was approved separately in August 2022). As reported in the annual accounts, actual spend for 2022/23 was £6.7 million, leaving an underspend of £15.4 million. There were underspends in each type of management expense but the main reason for the significant underspend was in relation to 'Project Forth' (underspend of £13.5 million). The amount spent in 2022/23 largely related to

work in relation to systems and consultancy work on the project. The project was suspended towards the start of the year before a formal closure was announced later in the year.

31. Investment management expenses have increased from £16.9 million in 220/21 to £18.5 million in 2022/23. The main reason for this increase is due to transaction costs arising from foreign market taxes in relation to compulsory corporate action in one of the externally managed portfolios.

32. Following the initial budget paper in March 2022, the committee were then provided with a projected outturn report in December 2022. The committee do not receive budget monitoring reports routinely through the year. The Fund should consider preparing quarterly budget monitoring reports for the Pensions Committee to ensure appropriate financial monitoring and scrutiny.

Recommendation 2

The Fund should prepare regular budget monitoring reports for the Pensions Committee to ensure appropriate financial monitoring of its annual budget.

33. The Pensions Committee receives comprehensive quarterly investment reports which include a review of the Fund and its managers' performance against benchmarks, as well as a review of the current market and the future outlook. From attendance at committee we observed and concluded that reports presented to members are subject to appropriate review and scrutiny.

34. Overall, we have concluded that the Fund has appropriate and effective financial management arrangements in place, including comprehensive reporting of investment performance. However, financial management of the annual budget could be improved through quarterly reports to committee.

The Fund has appropriate financial control arrangements in place

35. Our work in 2022/23 involved a walkthrough of the key controls over the systems used for pension administration activity and the pension fund's investments: Altair pension administration system and the Northern Trust custodian system. The Fund also uses the general ledger of the administering authority, Falkirk Council.

36. Our review of the systems used by the Fund did not identify any significant control weaknesses which could affect the Fund's ability to report financial and other relevant data in the financial statements, and we concluded that systems of internal control for the Fund operated effectively during 2022/23.

Internal audit provided an annual opinion for the annual account

37. The Fund's internal audit function is carried out by the Falkirk Council internal audit service. Internal audit completed its planned work in year and

issued its opinion for 2022/23 to the June 2023 Pensions Committee. Committee meeting. The Internal Audit, Risk and Corporate Fraud Manager's opinion provided substantial assurance over the Fund's arrangements for risk management, governance and control during 2022/23.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

38. Falkirk Council Pension Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place. We note that the Fund uses services such as the Department of Work and Pensions Tell Us Once service which will help support identification of errors regarding pension overpayments and obtain life certificates from pensioners living overseas to reduce the risk of potential frauds. We also noted that the Fund participates in NFI which identified seven cases for investigation. Following the completion of these investigations no issues of fraud were confirmed.

39. The Fund relies on the Council's arrangements for the prevention and detection of fraud and corruption. We have reviewed the arrangements put in place by the Council to address risks and concluded that there are appropriate arrangements for the prevention and detection of fraud and error.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

The actuarial valuation calculated in line with accounting standards, IAS 19 resulted in a £528 million asset. The triennial valuation is ongoing but the estimated funding level for 2022/23 is 132%. This supports a well-funded position.

Fund membership levels continue to increase but the ratio of active members to pensioners has reduced over the last five years.

Cash flows in relation to members continue to be positive but the continued growth in pensioner numbers and changes to contribution rates will likely lead to a worsening position in the longer term.

An IAS 19 asset of £528 million was reported in 2022/23 and the estimated funding level for 2022/23 was 132%

40. The results of the 2020 full triennial valuation of the Fund showed a funding level of 94%. This meant that overall, the Fund's assets were sufficient to meet 94% of the liabilities accrued to that date. Essentially, the Fund assets were slightly lower than projected liabilities.

41. In the Fund's actuarial statement for 2022/23, the actuary provided details about the experiences since the last triennial valuation. The actuary noted that markets were severely disrupted by Covid-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but recovered very strongly in 2020 and 2021. Markets have continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. The high levels of UK inflation (compared to recent years) have resulted in a higher than expected increase in pensioner benefits of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2020 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

42. The actuarial valuation calculated in line with accounting standards, IAS 19 resulted in a £528 million asset. The triennial valuation is ongoing but the estimated funding level for 2022/23 is 132%. This supports a well-funded position.

Medium term financial planning arrangements are appropriate

43. There is considerable volatility in pension funding and the results of the triennial valuation were in effect a snapshot of the Fund at 31 March 2020, with the next due at 31 March 2023. Following each triennial valuation, the Fund reviews and revises its funding strategy and allocation of assets as required. The funding strategy is a summary of the Fund's approach to funding liabilities. The investment principles outline the types of investment to be held and the appropriate balance between different types of investment. We will review the work done for the 2023 triennial valuation in our 2023/24 audit.

Fund membership levels continue to increase but the ratio of active members to pensioners is reducing

44. The Fund is a multi-employer fund with nine scheduled bodies and nine admission bodies active during 2022/23. Membership numbers over the last five years by body type is shown at [Exhibit 5](#).

Exhibit 5

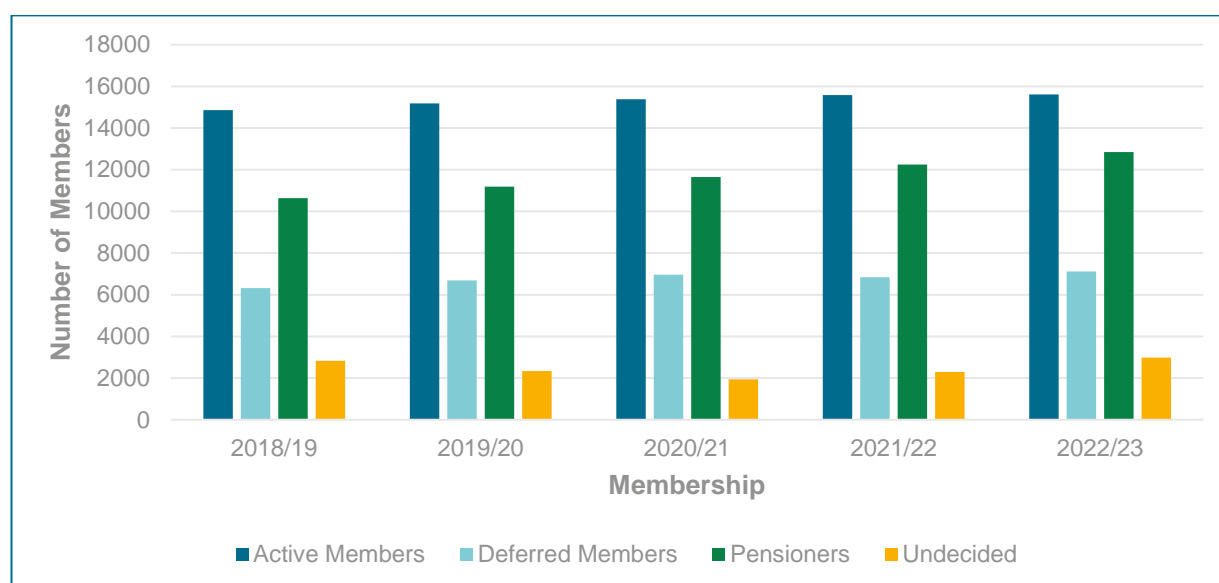
Membership split between Scheduled and Admission Bodies

	2018/19	2019/20	2020/21	2021/22	2022/23
Scheduled	30,494	31,225	31,921	32,996	34,871
Admission	4,141	4,171	4,008	3,982	3,692
Total	34,635	35,396	35,929	36,978	38,563

Source: Falkirk Council Pension Fund Annual Accounts 2022/23

45. The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each members' life. It is important that the fund maintains the capacity to meet the current and future pension entitlements of its members. The membership profile over the last 5 years is shown at [Exhibit 6](#).

Exhibit 6 Falkirk Council Pension Fund Membership



Source: Falkirk Council Pension Fund Annual Accounts 2022/23

46. Active membership of the fund increased by 40 to 15,621 members at 31 March 2023 and has increased by 764 (5.1 per cent) since 2018/19. The impact of contractual enrolment continues to contribute to the increase in employee members.

47. In 2022/23 the number of pensioners receiving a pension from the Fund increased by 595 compared to 2021/22. This continues the trend in the last five years of a steady increase in pensioner numbers each year. The number of active members continues to outweigh the number of pensioners but the ratio of active members to pensioners has reduced over the past five years from 1.40:1 in 2018/19 to 1.22:1 in 2022/23. This, combined with increasing life expectancy, continues to place additional pressure on the Fund. However, this does not present any immediate risk to the financial sustainability of the Fund.

The Fund continued to report a positive cashflow position

48. As shown in [Exhibit 7](#), cash flows from dealings with members continue to be positive in 2022/23, with less paid out in benefits than that received from contributions. The cashflow position has been relatively consistent over the last five years, other than a dip in 2020/21. This was due to Visit Scotland's interests in the Fund being transferred to Lothian Pension Fund as part of a LGPS Scotland wide exercise.

49. Despite the positive cashflow, the Fund is a maturing fund and expects to move to a neutral or negative position in the longer term. The continued growth in pensioner numbers within the Fund's membership makes funding future pension payments increasingly challenging. Potential changes to contribution rates are likely to have an impact as well. The Statement of Investment

Principles (approved in June 2021 with some revisions approved in August 2022) has reflected this in the investment strategy with a move towards a greater focus on equities and other return seeking assets to address future challenges. The main focus of the fund however is to achieve a return on fund assets to meet future liabilities.

Exhibit 7

Member transactions

	2021/22 £m	2022/23 £m
Employer contributions	(79.360)	(83.428)
Employee contributions	(21.757)	(23.060)
Employers' deficit recovery contributions	(1.028)	(0.581)
Transfer in	(3.670)	(8.243)
Lump sums paid	19.186	24.734
Pension paid	64.990	69.532
Transfer out	6.181	6.702
Net cashflows	(15.458)	(14.344)

Source: Falkirk Council Pension Fund Annual Accounts 2022/23

The regular triennial pension valuation process will take place in 2023/24, this may impact the funding strategy and pension contribution rates

50. There is a statutory requirement for local government pension funds to undertake a full actuarial valuation of assets and liabilities every three years. This is referred to as a triennial valuation.

51. Following the last triennial valuation in 2020, the actuary agreed employer contribution rates with individual employers from 1 April 2021. These continued to be used during 2022/23. For the majority of employers, contributions were in the range of 20.5 per cent to 30.3 per cent of pensionable pay. The next valuation is being carried out as at 31 March 2023. This is underway with results expected to be available by the end of 2023. The outcome of the triennial valuation will include setting the funding strategy for the following 3 years. This includes setting the contribution rates, while keeping in mind its

funding objectives of providing the stability and affordability of employer contributions.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

Governance arrangements are appropriate and operate effectively. Pensions Committee and Board members receive appropriate training each year, with the Fund keeping a record of this attendance.

The Fund did not report any breaches to the Pensions Regulator in year.

The Fund will be required to report in line with the Taskforce for Climate Related Financial Disclosures in the coming years. The Fund has made three commitments in relation to climate in its Statement of Responsible Investments but should familiarise itself with the TCFD requirements.

Governance arrangements are appropriate and operate effectively

52. Falkirk Council is the administering body for Falkirk Council Pension Fund. The Council has delegated responsibility for governance to the Pensions Committee. This committee, supported by the Board (made up of four employer representatives and four member representatives), is responsible for establishing arrangements that ensure the proper conduct of the affairs of the Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

53. Following the local government elections in May 2022, a new Pensions Committee was appointed. This included three who had served on the committee during 2021/22 and six who were newly appointed to the committee in 2022/23. Pensions Committee meetings were generally well attended in year, although we note one instance of non-attendance at three out of the four meetings.

54. Due to the specialised nature of the Fund, it is vital that members have appropriate knowledge and understanding to provide appropriate challenge and scrutiny. The pensions team advised that while there is no set timetable for

training each year, the programme tends to be similar each year. The Fund maintains a record of attendance at training events in the year. From a review of this, all members of the Pensions Committee who are councillors took part in the mandatory induction training following their appointment in May 2022. During 2022/23 various other training events were provided to members on investments, governance and administration with varying levels of attendance.

There are effective arrangements for complying with the Pensions Regulator Public Service Code

55. The Public Service Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes which funds are expected to comply with. This came into force in April 2015.

56. There were no breaches reported to the regulator in 2022/23. Although, we note that a small percentage of annual benefits statements were not issued in time (5.4%) and a small percentage of contributions were not received within the statutory deadline (0.6%).

57. The Pension Regulator had consulted during 2021 on consolidating ten of its codes, including the Code of Practice 14 for public sector pensions, into one single code. Once the Code is issued, it is expected that there will be increased requirements for pension funds to comply with.

Climate related financial disclosures will need to be included in the Fund's annual accounts in future

58. The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 introduced new requirements for certain trustees. From 1 October 2022, the rules will apply to trustees of private sector occupational pension schemes with net relevant assets of £1 billion or more. Legislation has not yet been passed for the Local Government Pension Scheme (LGPS) in Scotland to comply with this regulation, however, some of the larger funds are complying as it is seen as best practice. The legislation requires relevant trustees to measure, as far as they are able, and report on their investment portfolios' Paris alignment. These disclosures are commonly referred to as the Taskforce for Climate Related Financial Disclosures (TCFD).

59. The Scottish Local Government Pension Scheme (LGPS) Advisory Board's Working Group discussed TCFD in February 2022. The working group noted that all of the eleven Scottish LGPS funds had been contacted in late 2021 and asked to provide their views on TCFD and what they were doing to address TCFD. Ten funds, including Falkirk Pension Fund, provided feedback and demonstrated good awareness of climate-related reporting and climate-related risks and opportunities. It was highlighted that four funds already report in line with TCFD recommendations and a further five funds were preparing to do so over the next one or two years. The working group concluded that all funds are fully aware of the evolving landscape and the vast majority are already preparing to report in line with TCFD recommendations voluntarily.

Recommendation 3

The Fund should familiarise itself with the TCFD requirements and work with fund managers to ensure relevant information is made available. The Fund should also consider early adoption of disclosures in line with best practice.

60. A paper was taken to the Pensions Committee in 2021 to consider the whether the Fund should divest from fossil fuel related investments. The committee took advice from various investment professionals and agreed to retain the approach set out in the Fund's Statement of Responsible Investment Principles. There are three commitments relating to climate change set out in these principles:

- To measure carbon-equivalent emissions in equity portfolios
- To put capital into projects benefitting from the low carbon transition
- To assess the carbon intensity of all assets (using estimates if necessary) by the end of the 2022/23 reporting cycle.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Fund administration performance levels in 2022/23 were in line with agreed targets in most areas. They did not achieve three out of the seven targets set.

2022/23 was a challenging year for Scottish Local Government Pension Schemes with only two of the eleven funds reporting positive movements in net assets during the year. Falkirk Pension Fund was one of only three funds who reported above benchmark returns.

The pension administration function has not met three of its seven key performance indicators

61. The Fund's administration performance indicators are shown in [Exhibit 8](#) and are reported in the Fund's 2022/23 Annual Accounts. This shows that the Fund administration performance in 2022/23 is on target for three of the seven indicators set. This is consistent with the prior year. For those which were not met, these were not by a significant amount and explanations were given for this. Where benefits statements were not paid by the target date, these related to complex cases where investigation was required and for contributions not received within the statutory deadline, these are where there is a small employer with limited resources. Where retirement lump sums have not been paid within 15 days, the Fund advised in these cases they may not have all relevant documentation to process the payment.

62. We note that the achievement of these targets is dependent on documentation from other bodies and there are occasions where completing these processes are outwith the Fund's control. The Fund should take action to ensure they are achieving their performance indicators where possible.

Exhibit 8

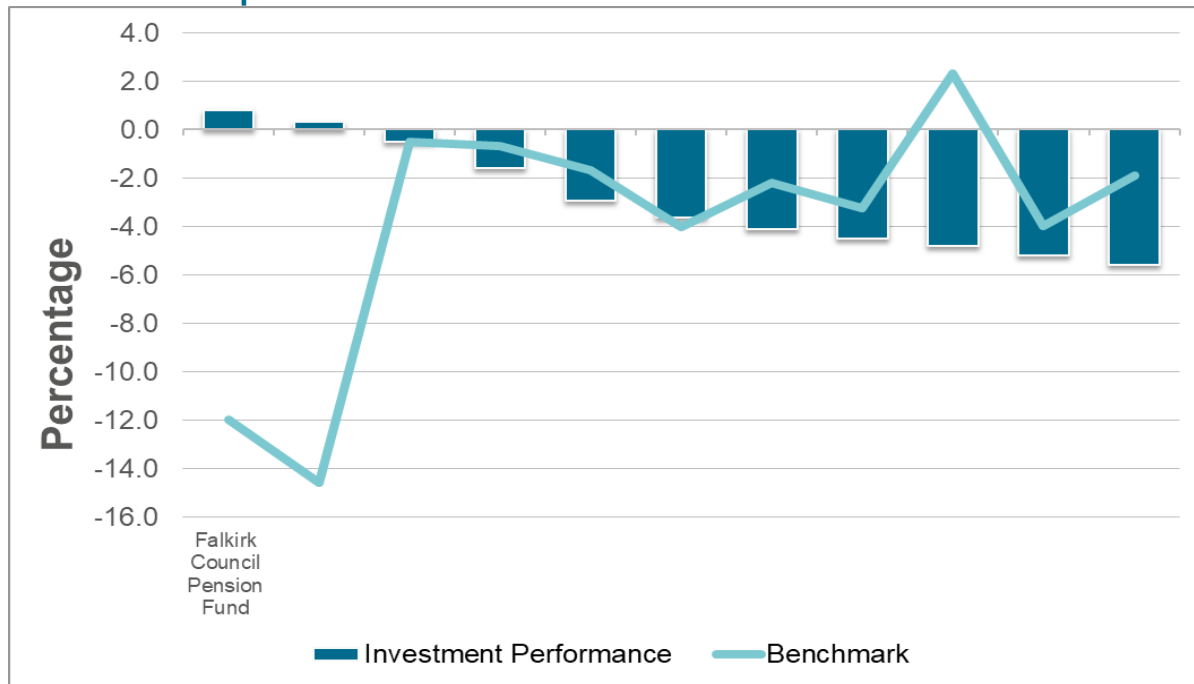
Administration performance indicators

Key performance indicator	Target	2021/22	2022/23
Audit of annual report and accounts	Unqualified	Unqualified	Unqualified
Benefits statements issued by 31 August 2022	100%	64%	94.6%
Contributions received within statutory deadline	100%	99.4%	99.4%
Retirement lump sums paid within 15 days	90%	93%	83%
Monthly pensioner payroll paid on time	100%	100%	100%
Pensions increase processed with April pension	Meet target	Met target	Met target
P60 documents issued by end May	Meet target	Met target	Met target

Source: Falkirk Council Pension Fund Annual Accounts 2022/23

2022/23 was a challenging year for Scottish Local Government Pension Schemes. Only two of the eleven funds reported positive movements in net assets during the year and only three funds reported above benchmark returns.

63. 2022/23 was a challenging year for Scottish Local Government Pension Schemes due to the impact of world events on financial markets and investments, as discussed at Part 2 of this report. As shown in [Exhibit 9](#), only two of the eleven funds reported positive movements in net assets during the year and only three funds reported above benchmark returns, with investment performance ranging from -6 per cent to 1 per cent (compared to returns ranging from -2 per cent to 13 per cent in 2021/22). Falkirk Council Pension Fund's increase of 0.8 per cent (against a benchmark return of -12 per cent) placed it at the top of this range and reflected the greater impact of the wider market conditions on the value of equity markets over the last 12 months.

Exhibit 9**Scottish LGPS pension funds 2022/23 – Net return on investment and benchmark return**

Source: 2022/23 Scottish LGPS pension funds unaudited annual accounts

The continuing impact of Covid-19 and the conflict in Ukraine on global markets reduced annual returns significantly but investment performance continues to outperform benchmarks

64. The Fund has appointed 40 external investment managers. Regulation 10 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) 2010 requires the monitoring of investment managers' performance each quarter. Individual investment manager performance is reviewed regularly by the Pensions Committee via quarterly reports, regular meetings and calls with managers and reporting outcomes to the Joint Investment Strategy Panel (JISP).

65. Financial markets have been exceptionally volatile in recent years due to the ongoing Covid-19 pandemic and more recently as result of the conflict in Ukraine. Returns against most asset classes, especially equities reduced significantly. Within the annual accounts, the Fund reports on the performance of the 17 biggest funds. Ten of these had a positive absolute return. Seven of these funds underperformed in relative terms, which means that they performed below the benchmark set for that investment fund. Returns from property investments, private equity and LPFI Index linked bonds showed significant underperformance. This year's relative return has been the poorest over the last five years.

The focus of the fund is to seek income generating assets.

66. The Statement of Investment Principles (approved in June 2021 with some revisions approved August 2022) restates the funding objective to build up the

required assets in a way that produces employer contributions which are as stable as possible. The Fund has reduced 'growth' assets in favour of moving towards income generating and indexed linked assets thereby reducing the volatility of asset returns and allowing a better match to the liabilities of the maturing Fund.

67. The asset allocation strategy will be reviewed in 2024 as part of the Fund's response to the triennial valuation results due in late 2023.

The administering authority has appropriate arrangements in place for securing Best Value at the Fund.

68. The administering authority (Falkirk Council) has responsibility for ensuring that its business, including that of the Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a statutory duty to make arrangements to secure Best Value, which are subject to audit.

69. The outcome of audit work on the administering authority's Best Value arrangements is reported in the Falkirk Council annual audit report. There are no findings directly applicable to the Fund.

Appendix 1: Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Completeness of underlying records</p> <p>The Fund does not input the year-end information provided by the Custodian on investments into the financial ledger.</p> <p>There is a risk over the completeness and accuracy of what is in the accounts.</p>	<p>The Fund should ensure all transactions are entered into the financial ledger to give assurance over the completeness of the annual accounts.</p> <p>Paragraph 23.</p>	<p>No change proposed.</p> <p>We currently access information from the Custodian which is audited by them on a monthly basis. To enter this into the ledger would involve a manual process which increases the risk of error and would require regular additional resource for little benefit.</p> <p>Responsible officer: N/A</p> <p>Agreed date: N/A</p>
<p>2. Financial monitoring of the annual budget</p> <p>The pensions committee currently do not receive regular financial monitoring reports on the annual budget of the Fund.</p> <p>There is a risk that the annual budget is not subject to appropriate scrutiny and significantly under or over spends.</p>	<p>The Fund should prepare regular budget monitoring reports for the pensions committee to ensure appropriate financial monitoring of its annual budget.</p> <p>Paragraph 31.</p>	<p>No change currently proposed.</p> <p>Management fees make up around 70% of the budget and are based on market value, so the actuals are not confirmed until the year end. As a result, budget reports would regularly be projecting to be on budget and would provide little benefit to the Pensions Committee. We will continue to bring an update report to Pensions Committee following six months of spend.</p> <p>The resource required to report more regularly would outweigh the benefits of more regular reporting.</p> <p>Responsible officer: N/A</p> <p>Agreed date: N/A</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Climate related financial disclosures</p> <p>Taskforce on Climate-Related Financial Disclosures (TCFD) is an upcoming requirement for the Fund.</p> <p>There is a risk the Fund is not making disclosures in line with requirements.</p>	<p>The Fund should familiarise itself with the TCFD requirements and work with Fund Managers to ensure relevant information is made available. The Fund should also consider early adoption of disclosures in line with best practice.</p> <p>Paragraph 60.</p>	<p>Whilst the benefits of the TCFD are recognised, the staffing resources within the Pensions Team would not allow Falkirk to be an early adopter of the disclosures. Should resources change, this could be considered further. However, at this point, the Fund will prepare for the disclosures within the required timeframes.</p> <p>Responsible officer: N/A</p> <p>Agreed date: N/A</p>

Falkirk Council Pension Fund

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk