



Pensions Audit Sub Committee

2.00pm, Tuesday, 22 June 2021

LPF Unaudited Annual Report (and Financial Statements) 2021

1. Recommendations

The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2021 for Lothian Pension Fund and Scottish Homes Pension Fund; and
- 1.2 highlight any points that it would like to raise at the Pensions Committee on 23 June 2021

John Burns

Chief Finance Officer, Lothian Pension Fund

Contact: Jason Koumides, Senior Finance Officer, Lothian Pension Fund

E-mail: jason.koumides@edinburgh.gov.uk | Tel: 0131 529 6245

Susan Macfarlane, Communications Partner – People and Communications, Lothian Pension Fund

Email: Susan.Macfarlane@edinburgh.gov.uk | Tel: 0131 529 4626

LPF Unaudited Annual Report (and Financial Statements) 2021

2. Executive Summary

- 2.1 The purpose of this report is to present the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2021 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2.2 A copy of the unaudited Pension Funds' Annual Report 2021 is attached as Appendix 1.
- 2.3 Lothian Pension Fund (Group) net asset valuation as at 31 March 2021 highlights a significant recovery from the prior year's fall in global and UK equity markets, with the total of £8,694m reflecting an increase of £1,215m (16.2%).
- 2.4 Given its mature membership profile, net assets of the Scottish Homes Pension Fund fell from £166.1m to £157.5m as at 31 March 2021, a decrease of £8.6m (5.2%).

3. Background

Statutory provisions and accounting guidance

Local Government (Scotland) Act 1973

- 3.1 Section 95 of the Local Government (Scotland) Act 1973 states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs". The Head of Finance serves as the Section 95 Officer for all of the City of Edinburgh Council's accounting arrangements, including those of the Pension Funds, however, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund.

The Local Authority Accounts (Scotland) Regulations 2014

- 3.2 These stipulate that "The Annual Accounts must be submitted to the auditor no later than 30th June immediately following the financial year to which the Annual Accounts relate". It is within the Pensions Committee's remit to consider the unaudited Annual Report for the pension funds.

The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021

Amendment of the Local Authority Accounts (Scotland) Regulations 2014

- 3.3 These regulations amend the dates of approval for signature of audited annual accounts, namely, "by 31 October 2021 in respect of the accounts for the financial year 2020-2021, and 30 September in each subsequent year, in respect of the

accounts for the immediately preceding financial year”. Publication of the audited annual accounts for 2020-21 must be undertaken by 15 November 2021, with, in future years, reversion to the previous deadline of 31 October.

- 3.4 Lothian Pension Fund does not intend to utilise the provisions made in *The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021* to revise the timetable for its Annual Accounts completion.

Accounting and other guidance

- 3.5 The content of the “Pension fund annual report” is governed by Local Government Pension Scheme (Scotland) Regulations 2018, Regulation 55. This regulation states:

“(1) An administering authority must, in relation to each year beginning on 1st April 2015 and each subsequent year, prepare a document (“the pension fund annual report”) which contains –

- (a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;
- (b) a report explaining the authority’s investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;
- (c) a report of the arrangements made during the year for the administration of each of those funds;
- (d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 60 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation;
- (e) the current version of the statement under regulation 53 (governance compliance statement);
- (f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;
- (g) an annual report dealing with –
 - (i) the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a pension administration strategy in accordance with regulation 57 (pension administration strategy); and
 - (ii) such other matters arising from a pension administration strategy as it considers appropriate;

- (h) the current version of the statement referred to in regulation 56 (funding strategy statement);
- (i) the current version of the statement under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (statement of investment principles);
- (j) the current version of the statement under regulation 59 (statements of policy concerning communications with members and Scheme employers); and
- (k) any other material which the authority considers appropriate “

- 3.6 Local authorities are required to account for pension funds in accordance with the applicable Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The Code now requires that preparers have regard to Chartered Institute of Public Finance and Accountancy (CIPFA) guidance “Accounting for Local Government Pension Scheme Management Costs”.
- 3.7 In March 2016, CIPFA revised and updated this guidance. Whilst the underlying principle of transparency of investment cost remained unchanged, a degree of relaxation to full cost disclosure was introduced. Specifically, for complex “Fund of Fund” structures, “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the (Pension) Fund Account.....If pension funds wish to provide information about the total cost of Fund of Fund investments, this should be included as part of the Investments section in the Annual Report”.
- 3.8 The financial statements of Lothian Pension Fund and Scottish Homes Pension Fund continue to include full transparency of all investment management fees.
- 3.9 With the, FCA regulated, investment services company, LPFI Limited, commencing trading on 28 February 2017, consolidated financial statements have again been prepared for Lothian Pension Fund for the year ended 31 March 2021. These consolidated financial statements combine those of the Fund (the parent entity) and its controlled entities (the investment staffing company, LPFE Limited, and now also LPFI Limited) as defined in International Accounting Standard (IAS) 27.

4. Main Report

LPF Unaudited Annual Report 2021

- 4.1 A copy of the unaudited Annual Report (and Financial Statements) for the year to 31 March 2021 for Lothian Pension fund and Scottish Homes Pension Fund is attached as Appendix 1.
- 4.2 In considering the unaudited Pensions Funds' Annual Report, Committee should note the following:

Financial Summary

- 4.3 Lothian Pension Fund (Group) net asset valuation as at 31 March 2021 highlights a significant recovery from the prior year's fall in global and UK equity markets, with the total of £8,694m reflecting an increase of £1,215m (16.2%).
- 4.4 Given its mature membership profile, net assets of the Scottish Homes Pension Fund fell from £166.1m to £157.5m as at 31 March 2021, a decrease of £8.6m (5.2%).

Governance

- 4.5 The Annual Report includes an Annual Governance Statement which sets out details of how the Funds are governed and the internal controls that are in place to manage risk. This mirrors the requirement to have a similar statement within the Financial Statements of the Council.
- 4.6 The Annual Report also encompasses a Governance Compliance Statement, which is a requirement of the LGPS Regulations. Its purpose is to record the extent to which the constitutional governance arrangements comply with best practice guidance issued by the Scottish Public Pensions Agency.
- 4.7 Related to the Annual Governance Statement is the Statement of Responsibilities for the Statement of Accounts. This sets out the respective responsibilities of the Administering Authority and those delegated to the Chief Finance Officer, Lothian Pension Fund.
- 4.8 The funds have separate Actuarial Statements, prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. This provides a summary of the triennial valuation as at 31 March 2020, with commentary by the actuary of the experience over the subsequent year.

5. Financial impact

- 5.1 There are no direct financial implications as a result of this report.

6. Stakeholder/Regulatory Impact

- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the funds and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

- 7.1 None.

8. Appendices

Appendix 1 - Unaudited Annual Report (and Financial Statements) 2021 for Lothian Pension Fund and Scottish Homes Pension Fund

Appendix 2: City of Edinburgh Council – Statement on the system of internal financial control by Head of Finance

Appendix 3: Lothian Pension Funds – Statement on the system of internal financial control by Chief Finance Officer, Lothian Pension Fund