



Pensions Audit Sub-Committee

2.00pm, Tuesday, 19 June 2023

LPF Unaudited Annual Report (and Financial Statements) 2023

Item number 6.2

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 2023 for Lothian Pension Fund and Scottish Homes Pension Fund;
- 1.2 note that the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2023 will be submitted to the auditor, Azets Audit Services Limited, by the due date of 30 June 2023;
- 1.3 note that, at the time of writing, final proof reading of the report, as appended, is still underway and therefore potential corrections and any minor amendments will be completed prior to release to the auditor and publication on the website.

David Vallery

Chief Executive Officer, Lothian Pension Fund

Contact: Jason Koumides, Financial Controller, Lothian Pension Fund

Susan Macfarlane, Head of Communications, Lothian Pension Fund

E-mail: lpfgovernancecomms@lpf.org.uk | Tel: 0333 996 1900

LPF Unaudited Annual Report (and Financial Statements) 2023

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 2023 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2.2 A copy of the unaudited Pension Funds' Annual Report 2023 is attached as Appendix 1.
- 2.3 Despite volatile markets the Lothian Pension Fund has made a small positive return for the year. This results in Lothian Pension Fund (Group) net asset valuation as at 31 March 2023 being broadly inline with last year £9,700.6m (2022 - £9,605.2m).
- 2.4 Scottish Homes Pension Fund has a mature membership profile, with its investment objective to match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the Fund. Over the year the Fund's assets and liabilities have declined but funding level has remained consistent with last year.

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 arrangement 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 Service Director: Finance and Procurement serves as the Section 95 Officer for all of the City of Edinburgh Council's accounting arrangements, including those of the Pension funds. In previous years the Section 95 responsibility was delegated to Lothian Pension Funds' Chief Finance Officer, but due to this post being vacant this responsibility has fallen back to the Finance and Procurement Service Director.

The Local Authority Accounts (Scotland) Regulations 2014

- 3.2 These stipulate that "The Annual Accounts must be submitted to the auditor no later than 30 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.

Accounting and other guidance

3.3 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 report about the management and financial performance during the year of each of the pension funds maintained by the authority;

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;

(a) a report of the arrangements made during the year for the administration of each of those funds;

(b) 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;

(c) the current version of the statement under regulation 53 (governance compliance statement);

(d) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;

(e) 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); and

(ii) such other matters arising from a pension administration strategy as it considers appropriate;

(f) the current version of the statement referred to in regulation 56 (funding strategy statement);

(g) 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);

(h) the current version of the statement under regulation 59 (statements of policing concerning communications with members and Scheme employers); and

(i) any other material which the authority considers appropriate”

- 3.4 Local authorities are required to account for pension funds in accordance with the applicable Code of Practice in 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 approval 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”.
- 3.5 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”.
- 3.6 The financial statements of Lothian Pension Fund and Scottish Homes Pension Fund continue to include full transparency of all investment management fees.
- 3.7 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 31 March 2023. 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 2023

- 4.1 A copy of the unaudited Annual Report (and Financial Statements) for the year to 31 March 2023 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 Despite volatile markets the Lothian Pension Fund has made a small positive return for the year. This has resulted in Lothian Pension Fund (Group) net asset valuation as at 31 March 2023 being broadly inline with last year £9,700.6m (2022 - £9,605.2m).
- 4.4 Scottish Homes Pension Fund has a mature membership profile, with its investment objective to match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the Fund. Over the year the Fund's assets and liabilities have declined but funding level has remained consistent with last year.

Governance

- 4.5 The Annual Report includes an Annual Government 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 issues 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.
- 4.8 The funds have separate Actuarial Statement, 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 fund and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse health and safety, 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) 2023 for Lothian Pension Fund and Scottish Homes Pension Fund

Appendix 2 – City of Edinburgh Council – Statement on the system of internal financial control by Service Director: Finance and Procurement

Appendix 3 – Lothian Pension Funds – Statement on the system of internal financial control by Service Director: Finance and Procurement