Falkirk Council Pension Fund

2023/24 Annual Audit Report

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

24 September 2024

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Vision, leadership and governance

9 Falkirk Council Pension Fund has effective and appropriate governance arrangements in place, including arrangements for compliance with the Pensions Regulator Public Service Code.

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

11 The Taskforce for Climate Related Financial Disclosures has been disbanded and the IFRS Foundation has been asked to take over the monitoring of the progress of climate-related disclosures in the coming years. The Fund has revised its commitments in relation to climate in its new Statement of Responsible Investments Principles.

Use of resources to improve outcomes

12 The pension administration function's performance against target has improved from the prior year.

13 The Fund reported a positive investment return but did not meet its annual benchmark return overall and within key policy groups. The Fund return does, however, exceed benchmarks over the medium and long term.

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

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Falkirk Council Pension Fund (the Fund). The scope of the audit was set out in the Annual Audit Plan presented to the 14 March 2024 meeting of the Pensions Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of the Fund's annual report and 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 committee of the Fund 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 2023/24

3. I, Pauline Gillen, have been appointed by the Accounts Commission as auditor of the Fund for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of my five-year appointment.

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 over this year's audit and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. The administering authority (Falkirk Council) of the Fund has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts for the pension 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. My responsibilities as the independent auditor are established by the Local Government (Scotland) Act 1973 the Code of Audit Practice, and supplementary guidance and International Standards on Auditing in the UK.

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

8. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. 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 2023/24 audit fee of £29,450 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds 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 2023/24 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 opinion on the annual report and accounts is 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 2024 and have been properly prepared in accordance with the financial reporting framework.

Audit opinions on the annual report are unmodified

11. The committee approved the annual report and accounts for the Fund for the year ended 31 March 2024 on 24 September 2024.

12. As reported in the independent auditor's report, in my opinion as the appointed auditor, the financial statements:

- give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the Management Commentary and Annual Governance Statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed on receipt of the unaudited annual report and accounts as £69 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. The initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£69 million
Performance materiality	£45 million
Reporting threshold	£690,000
Source: Audit Scotland	

15. The overall materiality threshold for the audit of the annual report and accounts was set with reference to net assets due to the significant value of assets.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65 per cent of overall materiality, reflecting the low number of errors in the previous year and the high level of estimation in the within the accounts.

17. 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

18. Under ISA (UK) 260, we communicate significant findings from the audit to the administering authority, including our view about the qualitative aspects of the fund's accounting practices.

19. The Code of Audit Practice also requires me to highlight key audit matters within the annual audit report which are defined in ISA (UK) 701 as those matters judged to be of most significance.

20. The significant findings including key audit matters, are summarised in Exhibit 2.

Exhibit 2
Significant findings and key audit matters from the audit of the annual accounts

<table>
<tr><th>Issue</th><th>Resolution</th></tr>
<tr><td>

1. Investment asset values

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.

We completed two procedures to obtain assurance:

- 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 (£45 million).

This identified differences totalling £13.7 million and £9.6 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, our sample testing of individual investments highlighted a net overstatement of £0.5 million. From the agreement to fund managers, this identified a separate net overstatement of £4 million. It should be noted that there could be some overlap with these.

Management has advised that these differences relate to timing differences. For some investments it is the timing of when the fund manager reports were run at the year end and both are valid valuations at that date. For other investments (such as private equity or infrastructure) there is a three-month lag after each quarter end and the Fund uses the best available information at the time of preparing the financial statements.

</td><td>

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.

As the value of the difference exceeds our minimum reporting threshold it has been reported for members' information.

</td></tr>
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Audit work responded to the risks of material misstatement we identified in the annual report and accounts

21. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 3 sets out the significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan. It also summarises the further audit procedures 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
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (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.	• Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.	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.

Audit risk	Assurance procedure	Results and conclusions
	• Focussed testing of accounting accruals and prepayments.	
2. Risk of material misstatement due to estimation in the valuation of complex investments 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 62% (£1.9 billion) were classified as level 2 and 3 investments. Level 3 investments have at least one input that could 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.	• Confirmation of year-end valuations to valuation reports and/or other supporting documentation, including third party confirmation. • Review of relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk. • Review the arrangements in place at the Fund to assess investment managers' governance arrangements. • Review 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. • Assess the expertise and competency of investment managers.	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.

22. In addition, we identified an "area of audit focus" in the 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **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 as management's expert 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

23. 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 report and accounts were received in line with the agreed audit timetable

24. The unaudited annual accounts were received in line with our agreed audit timetable on 24 June 2024. We were also provided with a suite of working papers and good support from the pensions team which allowed us to complete our audit.

The Fund did not accept prior year recommendations

25. In the 2022/23 Annual Audit Report, we made three audit recommendations to the Fund. Officers at the Fund accepted the relevance of the recommendations but made the decision not to make any changes to current processes or plans. Therefore, we did not have any recommendations to follow up on.

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 net assets of the Fund increased in value from the previous year. A positive return of 8.4 per cent was achieved but this was below the annual benchmark of 11 per cent.

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

Systems of financial control generally operated effectively however we identified one area where controls could be strengthened.

The value of the Fund increased and a return of 8.4 per cent was achieved. This was below the annual benchmark of 11 per cent.

26. When considering the investment performance of the Fund during 2023/24, it is important to recognise the impact of world events on financial markets and investments. The global impact of the conflict in Ukraine and other events has significantly increased market volatility. The fund's performance in 2023/24 is summarised in Exhibit 4.

27. The Fund has performed relatively well in 2023/24. The net assets of the Fund increased from £3.195 billion at 31 March 2023 to £3.445 billion at 31 March 2024. This was primarily driven by strong returns from the fund's equity holdings and investments in infrastructure. These market value changes contributed to a positive annual fund investment return of 8.4 per cent. This performance was below the annual benchmark set of 11 per cent however average annual returns over the 5-year period exceeded the benchmark by 2.2 per cent.

Exhibit 4
Assets, funding level and investment performance

Increase in net assets	Funding level	Investment performance
£3,445 million Closing net assets as at 31 March 2024 (+7.82%)	**121%** Net assets vs promised retirement benefits 31 March 2024	**7.14%** Average annual return on investments over 5 years (Benchmark: 4.86%)
£3,195 million Opening net assets as at 1 April 2023	**112%** Opening net assets as a proportion of promised retirement benefits	**8.41%** Return on investments 2023/24 (Benchmark: 11.04%)

Source: 2023/24 Falkirk Council Pension Fund unaudited annual report and accounts

28. The promised retirement benefits at 31 March 2024 have been estimated at £2.851 billion (31 March 2023 – £2.667 billion), showing a 6.9% increase from 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 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 Falkirk Council Pension 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 Pensions Committee receives administration and performance reports at its quarterly meetings. These reports are comprehensive and include fund performance trends, investment manager performance against benchmarks, and movements in asset allocations. From attendance at Committee meetings, we observed and concluded that reports presented to members are subject to appropriate review and scrutiny.

31. The 2023/24 budget for the Fund was set at £21 million and was approved by the Pensions Committee in March 2023. As reported in the annual accounts, actual spend for 2023/24 was £6.7 million, leaving an underspend of £14.3 million. There were underspends in each type of management expenditure but the main reason for the significant underspend was in relation to 'Project Forth' (underspend of £13.4 million). There was a small amount spent on Members Self Service implementation at the start of the year before the project ended.

We note that Members Self Service was in the plan to be implemented anyway but due to Project Forth the time scale was brought forward.

32. Following the initial budget paper in March 2023, the committee were provided with a projected outturn report in November 2023. The committee do not receive budget monitoring reports routinely at other points through the year. Following a recommendation in our Annual Audit Report last year, the Fund explained that management fees make up around 70 per cent of the budget and are based on market value, so the actual spend is 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. The Fund committed to continue providing an update after six months and this was done in year through the November report.

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 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.

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 accurately report financial and other relevant data in the financial statements. We did however, identify two areas where controls could be strengthened:

- The financial ledger does not currently require a second officer to authorise journals. The lack of control in this area raises the risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger. We note that journals raised by officers outwith the core pensions team are checked, but journals raised by the pensions team are not subject to second officer checks. We recommend that the Fund seeks to implement the requirement for journals to be authorised by a second officer however management advised that there are mitigations in place with inherent reviews of journal activity through the ongoing review of monitoring projections, outturns and reconciliations, so they do not plan to introduce such a control.
- The Fund uses the Altair system for the administration of the Fund. Altair is hosted by Heywood, which is considered a service organisation

to the Fund. We reviewed the local controls in place at the Fund to gain assurance over the hosting services provided by Heywood. We found that the Fund has frequent communication with Heywood through the appointed contact and can raise issues through this medium. The pensions team also obtain and review service auditor reports on Heywood. However, there was no evidence of consideration of such reports for Service Express, who host the data centres on behalf of Heywood. The Fund should obtain and review these reports timeously to assure themselves that the data held on the Altair system is secure.

Recommendation 1

The Fund should obtain and review service auditor reports for Service Express to strengthen its assurance over the hosting service provided to the Fund for its administration system.

Internal audit provided an annual opinion for the annual accounts

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 2023/24 to the June 2024 Pensions Committee. 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 2023/24.

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

38. In the public sector there are specific fraud risks, including those relating pension claimants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery, and corruption.

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 regular triennial pension valuation process took place in 2023/24 and resulted in an improved funding level from the previous valuation in 2020.

Medium-term financial planning arrangements are appropriate and effective with the Fund reviewing its funding and investment strategies after the triennial valuation.

Fund membership levels have increased but the ratio of active members to pensioners continues to reduce.

The Fund reported as negative cashflow position in 2023/24 due to two employers exiting the Fund.

The regular triennial pension valuation process took place in 2023/24 and resulted in a funding level of 137%

40. 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.

41. The most recent triennial funding valuation took place across Local Government Pension Scheme funds based on data as at 31 March 2023. The main purpose of the valuation is to review the financial position of each fund and to set appropriate contribution rates for each employer for the upcoming three-year period as part of the fund's overall funding strategy.

42. The results of the 2023 full triennial valuation of the Fund showed a funding level of 137%, a significant increase from the 2020 level of 94%. This meant that overall, the Fund had a surplus of assets over liabilities and that the fund assets were sufficient to meet 137% of its liabilities. As disclosed in the Annual Report and Accounts, a more recent estimate as at 31 March 2024 of 146%, shows further improvement during 2023/24.

Medium-term financial planning arrangements are appropriate and effective with the Fund reviewing its funding and investment strategies after the triennial valuation

43. There is considerable volatility in pension funding and the results of the triennial valuation are in effect a snapshot of the Fund at 31 March 2023. Following each triennial valuation, the Fund reviews and revises its funding strategy and investment strategy. The funding strategy is a summary of the Fund's approach to funding liabilities. The investment strategy outlines the types of investment to be held and the balances between the different types of investment.

44. The Funding Strategy Statement was prepared by the Fund's actuary, Hymans Robertson and was presented to the Pensions Committee in March 2024. This sets the employer contribution rates following the triennial valuation. The objective of the funding strategy is to secure the long-term solvency of the Fund while maintaining stable employer contribution rates.

45. The actuary and the Fund has agreed employer contribution rates with individual employers from 1 April 2024 for the next three-year period. Broadly contribution rates have reduced following the valuation due to both an improvement in the past service funding position and higher assumed investment returns at 2023 compared to 2020. For the majority of employers, the current funding surplus is being used to stabilise contribution rates. For a small number of employers, these rates include an element of deficit recovery contributions to support employers financial planning.

46. The Investment Strategy Review was also presented to the March 2024 Pensions Committee. The review was undertaken in collaboration with Lothian and Fife Pension Funds as part of the Joint Investment Forum and was informed by Hymans Robertson. The strategy is defined by five groups of assets with similar characteristics, referred to as policy groups.

47. The revised investment strategy considers the expected reduction in contributions following the actuarial valuation. The main changes from the previous strategy is a 5 per cent reduction in equities and a 5 per cent increase in the allocation to the sovereign policy group. They have also included a 2 per cent allocation to the cash policy group, reducing credit by 2 per cent to 8 per cent. These changes slightly reduce the overall investment risk, particularly around the reduction in equities and increase in the sovereign policy group, while still aiming to maintain sufficient levels of investment return.

48. An asset liability modelling tool is used by Hymns Robertson to project how the Fund's assets and liabilities might perform in the long term. This was used to project how the previous strategy and options for the revised strategy would perform. They concluded that the chosen strategy would deliver sufficient returns and a high probability of success over the long-term.

49. The Statement of Investment Principles (SIP) was also updated following the triennial valuation and was approved by the Pensions Committee in March 2024. The SIP forms part of the governance framework of the Fund and sets out principles which then guide the investment strategy and the objectives of the

Fund. The primary objective of the Fund is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment. This is reflected in the investment strategy with a significant focus on equities and other return seeking assets to address future challenges.

Fund membership levels have increased but the ratio of active members to pensioners continues to reduce

50. The Fund is a multi-employer fund with nine scheduled bodies and nine admission bodies. Membership numbers over the last five years by the type of body is shown in Exhibit 5.

Exhibit 5
Membership split between Scheduled and Admission Bodies

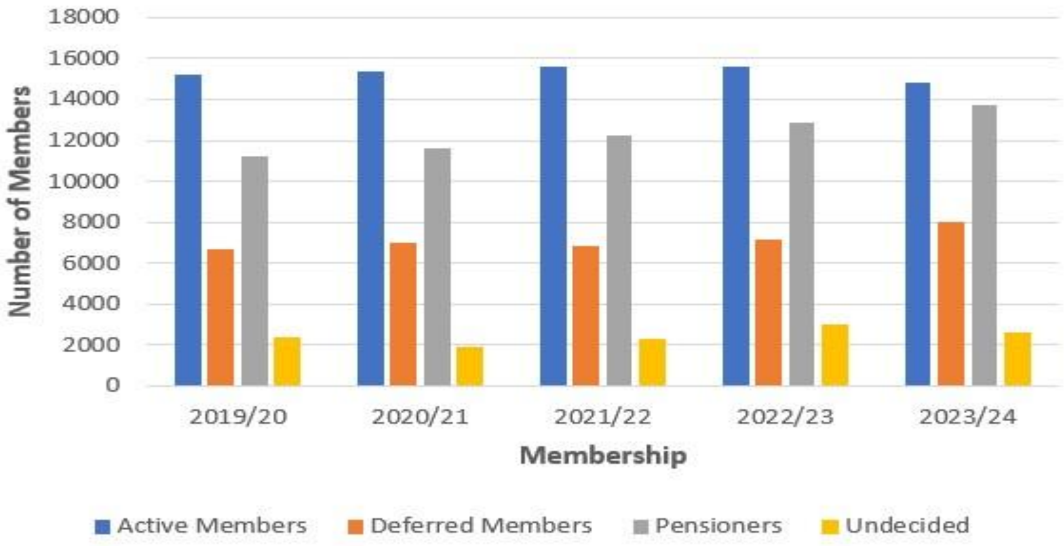
	2019/20	2020/21	2021/22	2022/23	2023/24
Scheduled	31,225	31,921	32,996	34,871	35,229
Admission	4.171	4,008	3,982	3,692	3,670
Total	**35,396**	**35,929**	**36,978**	**38,563**	**38,899**

Source: Falkirk Council Pension Fund Annual Accounts 2023/24

51. 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.

52. Membership of the fund increased by 336 to 38,899 at 31 March 2024, an increase of 0.9 per cent. However, active membership of the fund decreased by 780 (5 per cent). In 2023/24 the number of pensioners receiving a pension from the Fund increased by 628 compared to 2022/23. 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 1.36:1 in 2019/20 to 1.1:1 in 2023/24. This, combined with increasing life expectancy, continues to place additional pressure on the Fund. While we do not consider this to present any immediate risk to the financial sustainability of the Fund, it is a trend that will potentially impact it in the long-term.

Exhibit 6
Falkirk Council Pension Fund membership



Source: Falkirk Council Pension Fund Annual Report and Accounts 2023/24

The Fund reported a negative cashflow position in 2023/24

53. Cash flows from dealings with members were negative in 2023/24, with more paid out in benefits than received from contributions. The Fund has explained that cashflows into the Fund increased due to salary increases and higher employer rates for the largest employers. However, this was offset by two employers exiting the Fund which were both due an exit credit.

54. Over the last five years, cashflows have been positive except where there have been employers leaving the Fund. Despite the largely 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.

Exhibit 7
Member transactions

	2022/23 £m	2023/24 £m
Employer contributions	83.428	74.861
Employee contributions	23.060	23.878

Employers' deficit recovery contributions	0.581	1.053
Transfer in	8.243	8.664
Lump sums paid	(24.734)	(27.364)
Pension paid	(69.532)	(78.746)
Transfer out	(6.702)	(10.831)
Net cashflows	**14.344**	**(8.485)**

Source: Falkirk Council Pension Fund Annual Accounts 2023/24

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.

Conclusion

Falkirk Council Pension Fund has effective and appropriate governance arrangements in place, including arrangements for compliance with the Pensions Regulator Public Service Code.

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

The Taskforce for Climate Related Financial Disclosures was disbanded in year and the IFRS Foundation has been asked to take over the monitoring of the progress of climate-related disclosures in the coming years. The Fund has revised its commitments in relation to climate in its new Statement of Responsible Investments Principles.

Governance arrangements are appropriate and operate effectively

55. 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.

56. This was the second year of the current Pensions Committee following the local government elections in May 2022. While Committee meetings were well attended in year, attendance was not consistent across all members.

57. Due to the specialised nature of the Fund, it is vital that members have appropriate knowledge and understanding to provide appropriate challenge and scrutiny. A revised Training Policy was presented to the Pensions Committee in March 2024. The policy sets out expectations for Committee and Board members. These include:

- To attend at least three out of four formal joint meetings annually
- To attend at least two training events annually
- To prioritise any training events highlighted as being essential by the Chief Finance Officer or Pensions Manager
- To work towards completion of the Regulators ‘s Trustee Toolkit.

58. 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 Benchmark training. During 2023/24 various other training events were provided to members on investments, governance and administration with varying levels of attendance. As per paragraph 58, attendance at committee meetings was not consistent across all members.

59. The pensions team previously advised that while there is no set timetable for training each year, the programme tends to be similar each year. The new training policy includes a training plan for 2024/25 which formalises the training requirements of members.

60. The Fund’s governance arrangements have been set out in the Annual Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective. The Governance Statement included in the unaudited accounts contained references to the 2022/23 Internal Audit Annual Report. The Fund updated the Governance Statement to reflect the 2023/24 Internal Audit Annual Report.

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

61. The Public Sector 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 in January 2015 which funds are expected to comply with.

62. There were no breaches reported to the regulator in 2023/24. Although, we note that a small percentage of annual benefits statements were not issued in time (3 per cent) and a small percentage of contributions were not received within the statutory deadline (0.2 per cent). The Fund does not consider these events to be material or reportable.

63. 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.

The Fund has made new commitments to climate monitoring and actions in the new Statement of Responsible Investment Principles

64. The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change. For the

pension fund, the responsibility for meeting these targets lies with the administering authority (Falkirk Council).

65. While the administering authority is responsible for meeting the above targets, the Fund should be working towards monitoring and reporting on climate-related disclosures. The Scottish Local Government Pension Scheme (LGPS) Advisory Board's working group discussed the Taskforce for Climate Related Financial Disclosures (TCFD) in February 2022 and engaged with all eleven Scottish LGPS funds on TCFD. Subsequently the TCFD was disbanded and the IFRS Foundation has been asked to take over the monitoring of the progress of climate-related disclosures.

66. In the Annual Report and Accounts, a reference to the TCFD recommendations has been included and sets out how the Fund manages the wider climate change risk. The Fund has also made three climate-related commitments as part of the Statement of Responsible Investment 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.

67. We note that the timescale for the final commitment has passed and the Fund has advised that progress with the availability of the relevant data has slowed. A new Statement of Responsible Investment Principles was presented to the Pensions Committee in March 2024. There is a section on climate change and the Fund has revised its commitments to climate monitoring and action which reflect the current position.

The Fund is progressing with the application of the McCloud remedy with potentially 9,750 members affected

68. The McCloud Case resulted in a high court judgement that found the protection given to older members of public service pension schemes, when the schemes reformed in 2014 and 2015, was age discriminatory. A remedy to this came into force on 1 October 2023 extending the statutory underpin to all members who would have been eligible if no age restriction had applied. This is to be applied retrospectively to 1 April 2015 and will have cost and administration implications.

69. A report commissioned from Hymans Robertson indicated that 9,750 Falkirk members could potentially be impacted if the remedy is adopted, resulting in a significant administrative resource requirement.

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

The pension administration function's performance against target has improved from the prior year.

The Fund reported a positive investment return but did not meet its annual benchmark return overall and within key policy groups. The Fund return does, however, exceed benchmarks over the medium and long term.

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

The pension administration function's performance against target has improved from the prior year

70. The Pensions Committee meets quarterly and receives regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

71. The Fund's administration performance indicators are shown in Exhibit 8 and are reported in the Fund's 2023/24 Annual Accounts. This shows that the Fund administration performance in 2023/24 is on target for five of the seven indicators set. This is an improvement from the prior year where only three were met. Of the two which were not met, these were not by a significant amount and explanations were given for this. Where benefits statements were not issued by the target date, these related to complex cases where investigation was required and for contributions not received within the statutory deadline, these relate to small employers with limited resources.

72. 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

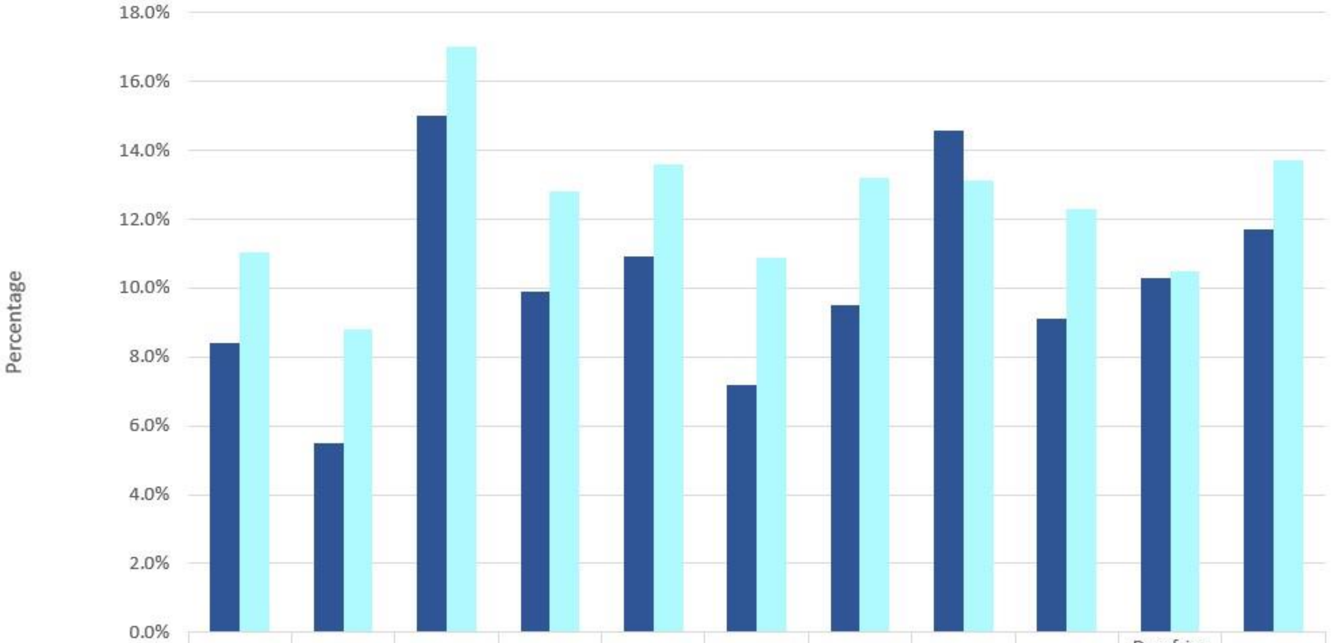
Key performance indicator	Target	2022/23	2023/24
Audit of annual report and accounts	Unqualified	Unqualified	Unqualified
Benefits statements issued by 31 August 2022	100%	94.6%	97%
Contributions received within statutory deadline	100%	99.4%	99.8%
Retirement lump sums paid within 15 days	90%	83%	91%
Monthly 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 2023/24

Scottish Local Government Pension Schemes reported improved performance in 2023/24 but only one fund reported above benchmark returns.

73. 2023/24 was a more positive year for Scottish Local Government Pension Schemes in terms of returns on investments. As shown in Exhibit 9, only one of the eleven funds reported a return higher than the benchmark but all reported positive returns for the year. Investment performance ranges from 5.5 per cent to 15 per cent (compared to returns ranging from -6 per cent to 1 per cent in 2022/23). Falkirk Council Pension Fund's return of 8.4 per cent (against a benchmark return of 11 per cent) placed it at the lower end of this range. We recognise that all Funds have different investment strategies which limits the value in these comparisons.

Exhibit 9
Scottish Local Government Pension Schemes performance against benchmark



	Falkirk	Lothian	Shetland	Strathclyde	Highland	Fife	North East	Tayside	Scottish Borders	Dumfries and Galloway	Orkney
1 Year Return	8.4%	5.5%	15%	9.9%	10.93%	7.2%	9.5%	15%	9.10%	10.3%	11.7%
1 Year Benchmark	11.0%	8.8%	17%	12.8%	13.59%	10.9%	13.2%	13%	12.30%	10.5%	13.7%

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

The Fund did not meet its annual benchmark return but investment performance continues to outperform medium and longer-term benchmarks

74. The Fund works with around 40 external investment managers. 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).

75. 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. The Fund reported an overall investment return of 8.41 per cent for 2023/24 with returns against most asset classes, especially equities, being positive. However, the return is below the benchmark of 11 per cent. When considering the Fund's position in the longer term, over three, five and ten years, the Fund return exceeds the benchmarks set.

76. Each policy group of investments has a specific benchmark return. Performance for each policy group is summarised in Exhibit 10.

Exhibit 10
Fund performance by policy group

Policy Group	Benchmark return (%)	Actual return (%)
Equities	18.41	12.91
Other real assets	14.12	5.42
Non-Gilt Debt	6.34	3.28
LDI	-11.86	-11.63
Cash	5.17	5.19

Source: Falkirk Council Pension Fund Annual Accounts 2023/24

77. Equities and other real assets are the two most significant policy groups in terms of weight and value and both performed under the benchmark. Non-gilt debt also reported returns under the benchmark. For equities, the performance reflects the Fund’s preference for stocks with lower volatility which tend to lag when there are rising equity markets. In the case of real assets, the market value reduces after capital distribution.

78. In the longer term the Fund has been able to demonstrate strong performance. As reported in the Annual Report and Accounts the Fund has outperformed its three, five and ten-years benchmarks.

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

79. 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.

80. The outcome of audit work on the administering authority’s Best Value arrangements is reported in the Falkirk Council Annual Audit Report. There were no findings directly applicable to the pension fund.

Appendix 1: Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Service auditor reports for Altair The Fund uses the Altair system for the administration of the Fund. Altair is hosted by Heywood, which is considered a service organisation to the Fund. The Fund obtains and reviews service auditor reports on Heywood. However, they do not obtain and review service auditor reports for Service Express, who host data centres in behalf of Heywood. There is a risk that there are weaknesses in the hosting arrangements that the Fund is not aware of.	The Fund should obtain and review service auditor reports for Service Express to strengthen its assurance over the hosting service provided to the Fund for its administration system. Paragraph 36.	**Accepted** Report will be requested annually. **Responsible officer:** Pensions Manager **Agreed date:** 31 March 2025

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed actions	Management response – no follow up
1. Completeness of underlying records The Fund does not input the year-end information provided by the Custodian on investments into the financial ledger. There is a risk over the completeness and accuracy of what is in the accounts.	The Fund should ensure all transactions are entered into the financial ledger to give assurance over the completeness of the annual accounts.	No change proposed. 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. Responsible officer: N/A

Issue/risk	Recommendation and Agreed actions	Management response – no follow up
		Agreed date: N/A
2. Financial monitoring of the annual budget The pensions committee currently do not receive regular financial monitoring reports on the annual budget of the Fund. There is a risk that the annual budget is not subject to appropriate scrutiny and significantly under or over spends.	The Fund should prepare regular budget monitoring reports for the pensions committee to ensure appropriate financial monitoring of its annual budget.	No change currently proposed. 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. The resource required to report more regularly would outweigh the benefits of more regular reporting. Responsible officer: N/A Agreed date: N/A
3. Climate related financial disclosures Taskforce on Climate-Related Financial Disclosures (TCFD) is an upcoming requirement for the Fund. There is a risk the Fund is not making disclosures in line with requirements.	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.	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. Responsible officer: N/A Agreed date: N/A

Falkirk Council Pension Fund

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