



## Agency Board Meeting 29 November 2022

Board/Cttee Report Number: SEPA 43/22

### Pensions Update November 2022

<b>Summary:</b>	SEPA are an employer in the Falkirk Pension Fund (LGPS). The Fund has recently published its Annual Report and Accounts which are summarised here. Additionally, the Scheme are currently considering a merger with the Lothian Pensions Fund (LGPS). The project related to the proposed merger is called "Project Forth".
<b>Risks:</b>	No immediate risks to SEPA. The triannual valuation in March 2023 may lead to an additional budget pressure from April 2024 (capped at 0.5%). Communications with staff around the potential merger will be important if it proceeds (Feb-Sept 2023).
<b>Resource and Staffing Implications:</b>	None
<b>Equalities:</b>	None
<b>Environmental and Carbon Impact:</b>	None
<b>Purpose and audience of the report:</b>	SEPA Board. For noting, no actions or approvals required.
<b>Report Author:</b>	David Morgan, Employer Representative (Chair) Falkirk Pensions Board & Member Project Forth Joint Oversight Group
<b>Appendices:</b>	N/A

## 1 Paper Outline

- 1.1 This paper presents an update on the Annual Report and Accounts for the Falkirk Pension Fund. It also provides an update to the SEPA Board on other relevant developments at the Fund; including the progress of Project Forth (the proposed merger of the Falkirk and Lothian Pensions Funds). This paper does not cover the financial impact on SEPA, this is covered in the SEPA Annual Report and Accounts.
- 1.2 The full Falkirk Pensions Fund Annual Report and Accounts can be found here: [Annual Report and Accounts - 2021/22 | Falkirk Pension Fund](#)

## 2 Content of this paper

- 2.1 Content for this paper comes from the following sources:
- papers received as Pension Board Chair
  - papers received as Joint Oversight Group (Project Forth) Member
  - publicly available information from Falkirk Council, the Scottish Public Pensions Agency (SPPA) and Local Government Pensions Scheme (LGPS).
- 2.2 Some information received as both Pensions Board Chair and Joint Oversight Group (JOG) Member is confidential and is therefore not shared in this paper. This unusual circumstance arises as I am acting as an “Employer Representative” rather than a “SEPA Employee or Representative” in my position on the Board and JOG. This is also the justification for not listing an AMT sponsor for this paper.

## 3 Key Dates

- 3.1 Falkirk Pension Fund
- Audited Annual Report and Accounts for 2021/22 published September 2022
  - Next triannual valuation due – 31st March 2023 (this is used to set employer contribution rates for the period 1st April 2024 – 31st March 2027)
  - Committee and Board dates for 2023:
    - 16 March
    - 15 June
    - 21 September
    - 30 November
- 3.2 Project Forth
- Initial public announcement of 'exploring merger' - 24 May 2022
  - Falkirk and Lothian Pension Committee pre-approval Jan-Feb 2023 (TBC)
  - Falkirk and Lothian Council approval anticipated Feb-April 2023 (TBC)
  - Potential effective date of merger 30 September 2023

## 4 Fund Performance

Performance Headlines	2018/19	2019/20	2020/21	2021/22
Funding Level	92%	94%	106%	113%
Admin cost per member (£)	22.4	25.96	26.72	26.61
Investment Return %	+8.5	-6.6	+22.3	+13.1
Performance v benchmark %	+1.7	-6.9	+0.6	+6.9
External audit outcome	Unqualified	Unqualified	Unqualified	Awaiting

- \* 31 March 2020 was a valuation year where a full Fund valuation was conducted. Funding levels at other year ends are estimated by the actuary by rolling forward from the last valuation. All funding levels are a snapshot on a particular date.

## 5 SEPA Contributions

- 5.1 In 2021/22 SEPA Employees made total contributions of £3.117m, SEPA made employer contributions of £9.286m.
- 5.2 Employer contribution rates will be reviewed by the fund following the actuarial valuation in March 2023.

## 6 Annual Report Summary

- 6.1 The defining events of 2021/22 for the Fund were the Russian invasion of Ukraine and the continuing uncertainty of lockdowns arising from the Covid-19 pandemic. These events produced challenges throughout the year, both micro and macro. Operationally, the Pensions team has been able to continue delivering an efficient and full range of services to stakeholders. Economically, the Fund is in a strong position to weather the global volatility in the financial markets and rising inflation.
- 6.2 During the year, the Fund delivered an investment return of 13.1%, which was more than double the benchmark return of 6.2%. The Fund remains in a healthy condition and is also cash flow positive, so is capable of paying member benefits out of current income as they fall due.
- 6.3 At 31 March 2022, the Fund had assets of £3.2 billion (£2.8 billion at 31 March 2021) and the actuary estimates an increase in funding level to 113% based on rolled forward figures and assumptions adopted at the 2020 Valuation.
- 6.4 Whilst an estimated funding level of 113% is very positive, it should be stressed that the funding level is a very volatile metric.
- 6.5 A strategic investment review to ensure the Fund charts a prudent and appropriate investment course was undertaken in 2021/22. Following the completion of this review slight alterations were made to the Fund's Investment Strategy and Statement of Investment Principles.

## 7 Considerations since the drafting of the Annual Report:

- 7.1 These include:
- High levels of inflation – increases fund liabilities at the annual valuation as they are index linked, affecting future funding levels.
  - Interest Rate Rises – impacts lending costs for businesses, slowing growth. Impacts guilt and non-guilt debt.
  - Currency Fluctuations – impacts the value of holdings in international currencies.
  - Market Volatility – drives significant changes in the valuation of assets. Particularly relevant as we approach the triannual valuation.
- 7.2 Despite these important considerations, to date, the Pensions Committee has not felt it necessary to make any further changes to Fund's Investment Strategy. The Joint Investment Strategy Panel (JISP) which advises the Committees and Boards of Falkirk, Fife and Lothian pension funds continue to monitor the situation and feedback to the Committees and Boards on a regular basis.

## 8 Project Forth Update

- 8.1 The SEPA Board last received information regarding Project Forth in July 2021. Project Forth concerns the potential merger of Falkirk and Lothian Pensions Funds. The combined fund would have ~115k members and manage ~£11.3bn of assets.
- 8.2 The Pensions Funds have been working together successfully for over a decade. A detailed review and options appraisal for the merger has been concluded with a favourable result.
- 8.3 As a reminder, the proposed merger is expected to deliver:
- Investment efficiencies
  - Operational efficiencies
  - Operational resilience
  - Improved customer service
  - Access to a wider range of asset classes
  - Improved advocacy on ESG (environmental, social and governance) issues
- 8.4 The potential effective date for the merger has been pushed back from 31st March 2023 to 30th September 2023. This is as a result of the following key drivers:
- An additional independent review of the business case for the merger has been commissioned by Edinburgh City Council
  - The need to review the proposed governance model/company structure for the merged fund following the identification of tax implications on the preferred model.
  - The local elections in May 2022 resulted in significant changes on the relevant Pensions Committees. Time was subsequently allocated to bring Committee members up to date on work undertaken to date.

## 9 Recommendations

- 9.1 SEPA Board to note the position of the Falkirk Pensions Fund as outlined in their 2021/22 Annual Report
- 9.2 SEPA Board to note the progress made on Project Forth
- 9.3 SEPA Board to note the potential impacts of the current financial climate, and the merger proposed under Project Forth, on future employer contribution rates

## Author(s) and Date

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