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Notice of Meeting and Agenda

Pensions Audit Sub-Committee

2.00 pm Tuesday, 6th December, 2022

LPF Board Room - LPF Board Room, Atria One, 144 Morrison Street, Edinburgh

This is a public meeting and members of the public are welcome to attend.

The law allows the Sub-Committee to consider some issues in private. Any items under "Private Business" will not be published, although the decisions will be recorded in the minute.

Contacts:

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Lesley Birrell, Committee Services, City of Edinburgh Council
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1. Quorum Check

1.1 The Convener will check to ensure a quorum is in attendance to ensure the meeting can proceed.

2. Order of Business

2.1 Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

3. Declaration of Interests

3.1 Members of the Committee and members of the Pensions Board should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

4. Deputations

4.1 If any

5. Minute

5.1	Minute of Pensions Audit Sub-Committee of 27 September 2022 (circulated) - submitted for approval as a correct record	7 - 12

6. Reports

6.1	Agenda Planning – report by the Chief Executive Officer, Lothian Pension Fund (circulated)	13 - 18
6.2	Lothian Pension Fund - Internal Audit Update as at 9 November 2022 – report by the Senior Audit Manager, City of Edinburgh Council (circulated)	19 - 36
6.3	Lothian Pension Fund - Internal Audit - External Quality Assessment – report by the Senior Audit Manager, City of Edinburgh Council (circulated)	37 - 46
6.4	Lothian Pension Fund Internal Audit Review 2022 – report by the Chief Executive Officer, Lothian Pension Fund (circulated)	47 - 52
6.5	EU Tax Other Income Tax Recoveries – report by the Chief Finance Officer, Lothian Pension Fund (circulated)	53 - 58
6.6	Data Quality Update – report by the Chief Operations Officer, Lothian Pension Fund (circulated)	59 - 114
6.7	Investment Income Review Cross Border Withholding Tax – report by the Chief Finance Officer, Lothian Pension Fund (circulated)	115 - 122

7. Motions

7.1	If any

8. Resolution to Consider in Private

8.1	The Sub-Committee is requested under Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting for the following items of business on the grounds that they would involve the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Part 1 of Schedule 7A of the Act.	

9. Private Business

9.1	Risk Management In-Depth Review – report by the Chief Risk Officer, Lothian Pension Fund (circulated)	123 - 144
9.2	Global Custody Supplier Management & Services Performance – report by the Chief Finance Officer, Lothian Pension Fund (circulated)	145 - 168
9.3	Information Security Update – report by the Chief Operations Officer, Lothian Pension Fund (circulated)	169 - 196

Nick Smith

Service Director – Legal & Assurance

Committee Members

John Anzani (Convener), Councillor Phil Doggart and Councillor Neil Ross.

Please note that members of the Pension Board and the Independent Professional Observer will also be invited to attend and participate in this meeting.

Information about the Pensions Audit Sub-Committee

The Pensions Audit Sub-Committee consists of 2 Councillors and 1 external member and is appointed by the City of Edinburgh Council in its separate capacity as administering authority of the Lothian Pension Fund. The Pensions Audit Sub-Committee usually meets 3 times a year.

The Pensions Audit Sub-Committee monitors the operation of the Fund's internal controls, governance, risk and compliance arrangements and financial reporting.

This meeting is being held in the Lothian Pension Fund Boardroom, Atria One, Morrison Street, Edinburgh and is open to members of the public. The meeting will be monitored by Susan Handyside.

The Committee Terms of Reference and Procedural Standing Orders.

Pension Board Members

Alan Williamson, Brian Robertson, Darren May, Jim Anderson, Sharon Dalli, Thomas Carr-Pollock, Tom Howorth, Nick Chapman and Tony Beecher.

Information about the Pension Board

The Pension Board consists of 10 members, 5 members from the employer bodies and 5 members from trade unions representing members within the pension funds as set out in the regulations.

The role of the Pension Board is to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation.

https://www.lpf.org.uk/us

Independent Professional Observer

Andy McKinnell

Information about the Independent Professional Observer

The Independent Professional Observer is appointed by the Lothian Pension Fund to help strengthen the Lothian Pension Fund's governance. The role is to provide independent observations to the Pensions Committee and Pension Board.

The purpose of the role is to enhance the scrutiny of the decision making and provide the Committee and Board with additional experience and knowledge impartial from the Lothian Pension Fund's Officers.

City of Edinburgh Council Oversight

The City of Edinburgh Council has statutory responsibility to administer the Lothian and Scottish Homes Pension Funds. In order to most effectively carry out that function (and to reflect the separate statutory responsibilities, and regulation, of the pension funds) the City of Edinburgh Council has delegated management responsibility for the Pension Funds to the Lothian Pension Fund Group and its two arms-length companies LPFE Limited and LPFI Limited. Critical parent oversight continues to be carried out by the Pensions Committee and Richard Carr, Interim Executive Director of Corporate Services for The City of Edinburgh Council as the Administering Authority for the Fund to ensure that its statutory functions are being properly carried out.

Lothian Pension Fund Senior Leadership Team

The senior leadership team responsible and accountable for the business and activities of the Lothian Pension Fund Group are:

David Vallery, Chief Executive Officer
Bruce Miller, Chief Investment Officer
Kerry Thirkell, Chief Risk Officer
John Burns, Chief Finance Officer
Helen Honeyman, Chief People Officer

Further Information and Contact

If you have any questions about the agenda or meeting arrangements, please contact Susan Handyside, Governance Manager, Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh EH3 8EX, Tel 07771378238, email han24S33@lpf.org.uk

The agenda, minutes and public reports for this meeting can be viewed via the City of Edinburgh Council committee portal.

Pensions Audit Sub-Committee Minutes

2pm, Monday 27 September 2022

Present:

John Anzani (Convener), Councillor Phil Doggart and Councillor Neil Ross.

Pension Board Members:

Nick Chapman and Brian Robertson.

Other Attendees:

Andy McKinnell, Independent Professional Observer, Laura Calder, (Senior Audit Manager, City of Edinburgh Council) and Nick Bennett, Azets Audit Services (External Auditor).

1. Quorum

The Clerk confirmed that notice of the meeting had been given and that a quorum was present and the Convener declared the meeting open.

2. Order of Business

The Clerk confirmed that there was no change to the order of business.

3. Declaration of Interests

Decision

To note there were no declarations of interest.

4. Minutes

Decision

To approve the minute of the Pensions Audit Sub-Committee of 7 December 2021 as a correct record.

5. Pension Board oversight

The Pension Board representatives confirmed that the Pension Board would provide comment any relevant matters during the meeting.

6. Agenda Planning

An overview of proposed reports for Pensions Committee and Pensions Audit Sub-Committee meetings for December 2022 and March 2023 was presented.

Decision

1) To note the agenda planning document.

2) To note that the Pension Board Members were invited to comment on agenda items during Committee meetings.

3) To note that the Pensions Committee, on 28 September 2022, would be requested to consider agreeing to convene an additional meeting of the Committee to be held in November 2022 to consider Project Forth in advance of consideration by full Council in December 2022.

4) To note that the scheduling of future Audit Sub-Committee meetings would be reviewed in terms of their current proximity to meetings of the Pensions Committee.

5) To review the remit and terms of reference of the Audit Sub-Committee and its relationship with internal audit and the City of Edinburgh Council as part of the Council's review of its political management arrangements.

6) To include an update on IT security as a regular item of business on future Audit Sub-Committee agendas with IT security information also to be included in the main risk register.

7) To note that the Chief Executive Officer would review how risk and IT was reported to various Board and Pensions Committee and provide an update to a future Audit Sub-Committee meeting.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted.)

7. Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund

An overview and details of the Audited Annual Report and Accounts for the year ended 31 March 2022 for Lothian Pension Fund and Scottish Homes Pension Fund was presented to members by the Chief Financial Officer, LPF and the Fund's external auditor, Nick Bennett from Azets Audit Services.

Nick Bennett presented the audit findings to members including the audit opinion, key findings on audit risks, audit adjustments and accounting systems and internal controls.

Azets Audit Services had provided an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund and had also confirmed that there were no matters on which it was required to report by exception.

Key points within the Audit Report included confirmation that work had been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Decision

1) To note the report by Azets Audit Services "Lothian Pension Funds 2021/22 Annual Audit Report to Members of the Pensions Committee and the Controller of Audit" (at Appendix 1).

2) To note the audited Annual Report (and Financial Statements) for the year ended 31 March 2022 for Lothian Pension Fund and Scottish Homes Pension Fund (at Appendix 2).

3) To note that the audited financial statements for the year ended 31 March 2022 of both the wholly owned companies, LPFE Limited and LPFI Limited, had been approved by the respective Boards of Directors in July 2022 (at Appendices 3 and 4).

4) To note the Letter of Representation (ISA 580) by the Chief Finance Officer, Lothian Pension Fund (at Appendix 5).

5) To note the appointment of Audit Scotland as auditor for future years 2022-2027.

6) To express recognition and gratitude to Nick Bennett, Partner, Azets Audit Services for his work and that of his team for the audit assurance provided since 2015/16.

(Reference - report by the Chief Finance Officer, Lothian Pension Fund, submitted.)

8. Irrecoverable Overpayment of Pensions – Decisions Made Under Delegated Authority

The annual update to members in relation to irrecoverable overpayment of pensions provided a summary for the period of 1 September 2021 to 31 August 2022. The report highlighted overpayments totalling £25,250.20 and set out the efforts to recover the overpayments and the reasons LPF concluded payments were irrecoverable.

Decision

To note that the total value of pension overpayments written off between 1 September 2021 and 31 August 2022 was £25,250.20.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted.)

9. Lothian Pension Fund - Internal Audit Update as at 31 August 2022

Details were provided of the progress of internal audit's (IA) assurance activity on behalf of Lothian Pension Fund performed by the City of Edinburgh Council's internal audit function.

Delivery of the four audits included in the 2021/22 IA annual plan had been completed with the final audit which supported LPF's 2021/22 annual opinion presented to the Pensions Committee on 29 June 2022.

The 2022/23 IA annual plan had been approved by the Pensions Committee in March 2022 and included a focus on Project Forth and information technology. An update to the plan was proposed to reflect the ongoing progress of Project Forth and to enable assurance across a wider range of LPF risks supporting the 2022/23 IA annual opinion.

As at 31 August 2022, LPF had 13 open IA findings (1 high, 4 medium, 8 low) supported by 15 agreed management actions (1 high, 6 medium, 8 low). One high rated finding raised in the cessations audit completed in November 2021 was overdue.

The report detailing the outcomes of the Risk Management review (Effective) was submitted for review and scrutiny.

Decision

1) To note the outcomes of the final audit supporting completion of the Lothian Pension Fund 2021/22 internal audit (IA) annual plan and annual opinion.

2) To note the proposed update to the 2022/23 IA plan agreed by Committee in March 2022 to reflect ongoing progress with Project Forth.

3) To note progress with implementation of agreed management actions to support closure of Lothian Pension Fund IA findings raised.

4) To note that an internal audit update paper would be submitted to every Audit Sub-Committee meeting going forward.

5) To note that LPF officers would facilitate a training session for members to discuss the Audit Sub-Committee terms of reference, standing orders and delegations.

(References – Pensions Committee 29 June 2022 (item 10); report by the Senior Audit Manager, City of Edinburgh Council, submitted)

10. Fraud Prevention

Members were presented with an overview of the work undertaken by LPF to prevent fraud including controls such as LPF's delegations, one off payments processes and bank validation checks. The report also updated members on LPF's participation in initiatives such at the national fraud initiative and the Local Government Association (LGA) National Insurance database.

Decision

To note the report.

(Reference - report by the Chief Executive Officer, Lothian Pension Fund, submitted.)

11. Risk Management Summary

In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, an overview was provided of LPF's risk analysis.

The Risk Management Group continued to meet regularly to assess all elements of the LPF Group's risk framework including the risk appetite, register, overall assurance position and any more granular risks escalation from other sub-groups.

The Chief Risk Officer role had altered and was now a focussed risk and compliance role with governance and legal being the responsibility of the Chief Executive Officer.

Decision

1) To note the Quarterly Risk Overview as at 22 August 2022.

2) To include expected completion dates against each proposed action in future reports.

(Reference - report by the Chief Risk Officer, Lothian Pension Fund, submitted.)

12. Information Security Update

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

An update was provided of progress being made by Lothian Pension fund towards achieving the objectives of its information security objectives

Decision

1) To note the update on Lothian Pension Fund's progress against its information security objectives.

2) To request an update report to the December meeting of the Audit Sub-Committee on all the recommendations from the consultant and actions taken by LPF to address these.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

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Pensions Audit Sub Committee

2.00pm, Tuesday, 6 December 2022

Agenda Planning

1. Recommendations

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

1.1 Agree that the Pension Audit Sub Committee should hold an additional meeting in March 2023.

1.2 note the agenda planning document; and

1.3 note that the Pension Board members are invited to comment on agenda items during Committee meetings.

David Vallery
Chief Executive Officer, Lothian Pension Fund

Contact: Susan Handyside, Governance Manager, Lothian Pension Fund

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

Agenda Planning

2. Executive Summary

2.1 This report and the agenda planning document (appendix 1) provide the Committee with an overview of the proposed agendas for future meetings of the Pensions Committee and Pensions Audit Sub Committee and the annual cycle.

2.2 There will, of course, be specific matters and papers which need to be brought to the attention of the committees in addition to those set out herein.

3. Background

3.1 In order for the Committee and Pension Board to gain an overview of the content of future meetings, and also an awareness of the annual cycle of items, an agenda planning document is submitted each quarter.

3.2 Committee meetings are held on a quarterly basis and additionally as required; the Audit Sub Committee meetings are generally held three times a year.

4. Main Report

4.1 The proposed agendas for the March and June meetings are set out below, based on the usual Committee cycle plus any additional and intra-cycle requests.

4.2 In September the Committee agreed to hold an additional committee meeting in November. Due to insufficient information being available for the committee to consider the convenor agreed that the meeting be rescheduled to the new year.

4.3 A review of the committee agenda will take place at the beginning of next year, the purpose of the review is to ensure that the papers for consideration are fully aligned with the committee's terms of reference and that where possible, duplication of committee papers between audit sub-committee and pension committee is reduced. During January and February, the team will consult with Convenors and a proposal will be presented to committee in March.

4.4 To enable the Audit Sub Committee to provide sufficient scrutiny of the Internal Audit plans and reviews it is recommended that the Audit Sub Committee agree to hold an additional meeting in March 2023.

March 2023

Pensions Committee
• LPF Strategy and Business Plan (operating plan) and Budget • Audit Plans (Internal and External) • LPF Internal Audit Review • Policies and Strategies Update • Benchmarking • Risk Management Summary • Project Forth Update • Agenda Planning review

June 2023

Pensions Committee	Audit Sub Committee
• Referrals/ recommendations from Pensions Audit Sub Committee • LPF Annual Report and Accounts (Unaudited) • Statement of Investment Principles • Joint Investment Strategy Panel Activity • Annual Investment Updates – Lothian Pension Fund and Scottish Homes Pension Fund • Annual LPF Group Governance Update • Funding Strategy Statement • Risk Management Summary • Project Forth Update	• LPF Annual Report and Accounts (Unaudited) • Internal Audit Update • Risk Management Summary

Future Pensions Committee and Audit Sub Committee dates

The Committee meeting dates for 2022/23[1] are set out below and calendar invites will be sent to you via committee services shortly. These meetings will be held in person with the option, if required, to attend virtually.

Pensions Committee	Audit Sub Committee
• Thursday, 23 March 2023, 2.00pm, • Wednesday, 21 June 2023, 2.00pm,	• Monday, 19 June 2023, 2.00pm,

5. Financial impact

5.1 None.

[1] Please note that the 2023 Pension Committee dates will be subject to change depending on progress with Project Forth.

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 – LPF's Annual Agenda Planning Cycle

Frequency	Pensions Committee	Audit Sub Committee	Month
Every 3 years	Actuarial Valuation: LPF SHPF (next report due Mar 2024)		December or March
	Funding Strategy Statement (review due June 2023 with final version presented for approval in March 2024)	N/A	March
Biennial	Pension Administration Strategy (presented in March 2022)	N/A	September
	Administering Authority Discretions Policy. Next review due September 2022	N/A	September
Annually	LPF Strategy and Business Plan and Budget		March
	Audit Plans (Internal and External)	*Draft internal audits and plan will be developed in consultation with the Convenor of the Audit Sub Committee, the CEO (LPF) and, if appropriate, the Independent Professional Observer and circulated to the Audit Sub Committee members for comment.*	March
	Policies and Strategies Update (including revised Pension LPF Budget)	N/A	March
	LPF Annual Report and Accounts (Unaudited)	LPF Annual Report & Accounts (Unaudited)	June
	LPF Internal Audit Opinion	LPF Internal Audit Opinion	June
	Statement of Investment Principles	N/A	June
	Joint Investment Strategy Panel Activity	N/A	June
	Annual Investment Updates - Lothian Pension Fund and Scottish Homes Pension Fund	N/A	June
	Annual LPF Group Governance Update	N/A	June
	Employer Covenant Review	N/A	September
	Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund (including the Annual Report by External Auditor)	Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund (including the Annual Report by External Auditor)	September
	Stewardship Code Review		September
	N/A	Irrecoverable overpayment of pensions – decisions made under delegated authority	September
	N/A	Fraud Prevention	September
	Lothian Pension Fund Contract Awards Report	N/A	September

Frequency	Pensions Committee	Audit Sub Committee	Month
	Annual Report by External Auditor	Annual Report by External Auditor	December (or September if available)
	Benchmarking	N/A	December
	N/A	EU Tax Claims and Other Income Tax Recoveries	December
	N/A	Investment Income Review-Cross-Border Withholding Tax	December
	Stewardship and Engagement	N/A	December
	N/A	Pensions Data Quality	December
	N/A	Global Custody Services Performance	December
	N/A	Risk Management: In-depth review	December
		LPF Group Controls and Compliance	December
Semi Annually	Employers Participating in Lothian Pension Fund	N/A	March & September
3 Times per year	Operating Plan and Budget Update	N/A	March[1], September & December
	Referrals / recommendations from Pensions Audit-Sub	N/A	June, September & December
Quarterly	Risk Management Summary	Risk Management Summary (In-depth report in December)	March, June, September and December
	N/A	Internal Audit Update	
As required	Delegated authorities (provider appointments)	N/A	
	Discretions (death grants etc.)	N/A	
	Regulatory Update	N/A	
	Investment Strategy Reviews (at least every 3 years - next due June 2024)	N/A	

[1] The March update will have the dual purpose of a business strategy update, budget review and budget approval for the forthcoming financial year.

Pensions Audit Sub-Committee

2pm, Tuesday, 6 December 2022

Lothian Pension Fund - Internal Audit Update as at 9 November 2022

1. Recommendations

The Committee is requested to note:

1.1 The outcomes of the recently completed Project Forth Programme Assurance audit;

1.2 Progress with planning delivery of the remaining three Lothian Pension Fund audits which will support delivery of the 2023/24 annual audit opinion; and

1.3 Progress with implementation of agreed management actions from previously completed internal audits.

Laura Calder
Senior Audit Manager, City of Edinburgh Council
Legal and Assurance, Corporate Services Directorate
E-mail: lpfgovernancecomms@lpf.org.uk | Tel: 0333 996 1900

2. Executive Summary

2.1 This report provides details of the progress of Internal Audit's (IA) assurance activity on behalf of Lothian Pension Fund (LPF) overseen by the City of Edinburgh Council's (the Council) IA function.

2.2 Delivery of the four audits included in the revised 2022/23 IA annual plan agreed by Committee in September 2022 is underway, with the first audit complete and planning for the remaining three audits in progress.

2.3 As at 9 November 2022, LPF had 14 agreed management actions and two actions are passed their original implementation date. Revised dates have been provided for both actions, which are expected to be complete by 31 December 2022.

2.4 A report detailing the outcomes of the Project Forth Programme Assurance audit is included for the Committee's review and scrutiny.

3. Background

2022/23 Internal Audit Annual Plan

3.1 A revised 2022/23 LPF IA plan was approved by the Pensions Committee in September 2022 which consists of four audits (see 4.1 for details).

Internal Audit Follow-Up Process

3.2 IA follow up on progress with implementation of management actions arising from IA reports. In October 2022, a risk-based approach to follow-up was introduced in line with best practice.

3.3 All high rated management actions are validated when presented for closure together with a sample of medium actions. The remaining medium actions and low actions are closed via a 'self-attestation' once confirmed as complete by management.

4. Main Report

Progress with delivery of the 2022/23 LPF IA annual plan

4.1 The 2022/23 IA annual plan includes the following reviews:

- Project Forth – Programme assurance
- Information governance

- Third-party supplier management
- Adequacy of technology security assurance arrangements

4.2 The Project Forth - Programme assurance review is complete with outcomes set out in Appendix 1.

4.3 Planning is underway for the remaining three reviews which will be completed between January to March 2023 as agreed with management.

Status of Open IA management actions as at 9 November 2022

4.4 As at 9 November 2022, LPF had 14 agreed management actions (1 High; 6 Medium; 7 Low) which were raised across the following audits:

- Bulk Transfers (4)
- Cessations (1)
- Technology Model Development (2)
- Employer Contributions (4)
- Capital Calls (1)
- Risk Management (2)

4.5 Two management actions are passed their original implementation date, however revised dates have been provided for both. Details are set out below:

Audit	Date completed	Rating	Update
Cessations	November 2021	High	As reported to committee in September, the due date for this action has been revised from 31 March 2022 to 31 December 2022, due to the reducing number and unpredictable timing of cessations.
Technology Model Development	March 2022	Medium	This action relates to implementation of actions arising from Data Protection Impact Assessments and was originally estimated for completion on 30 September 2022 but has been extended to 31 December 2022. LPF have progressed the actions and are working with the Council's Information Governance Unit to complete.

4.6 The remaining 12 management actions are not yet due for completion and implementation is currently being progressed by LPF.

5. Financial impact

5.1 The cost for delivery of the 2022/23 IA annual plan is estimated to be circa £80k. Costs applied is based on agreed rates as specified in the IA external co-source contract and actual time spent by the Council's IA team as recorded in IA time sheets and will be discussed and agreed with LPF management.

5.2 This includes the costs associated with ongoing follow-up activity, and the costs involved with preparing reports, attending committee meetings, and preparing the LPF annual plan.

5.3 It is also important to note that failure to close management actions and address the associated risks in a timely manner may also have financial impacts which are not yet measurable.

6. Stakeholder/Regulatory Impact

6.1 IA recommendations are raised as a result of control gaps or deficiencies identified during audits. If agreed management actions are not implemented, LPF will be exposed to the risks set out in the relevant IA reports, including the potential risk of non-compliance with applicable regulations.

7. Background reading/external references

7.1 Public Sector Internal Audit Standards

7.2 Lothian Pension Fund – Internal Audit Update as at 31 August 2022 (item 6.4)

8. Appendices

Appendix 1 Final Project Forth – Programme Assurance Internal Audit Report

Internal Audit Report
Lothian Pension Fund: Project Forth - Health Check

22 November 2022

LPF2201

Overall Assessment	**Some improvement required**

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Appendix 2 – Documents considered for review and stakeholders interviewed/engaged **Error! Bookmark not defined.**

This internal audit review is conducted for the Lothian Pension Fund (LPF) under the auspices of the 2022/23 internal audit plan approved by the Pensions Audit Sub Committee in September 2022. The review is designed to help LPF assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are a number of specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of LPF. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and Pensions Committee members as appropriate.

Background and scope

Lothian Pension Fund (LPF) is directly regulated by The Pensions Regulator; the Scottish Information Commissioner; and is subject to other public sector rules and regulations. LPF's administration is managed through subsidiary companies, to which corporate law applies.

LPF is proposing to merge with Falkirk Pension Fund ("Project Forth"). LPF have already assessed the options and taken legal advice from Shepherd & Wedderburn and want to pursue the merger. However, as LPF is a subsidiary of City of Edinburgh Council ("the Council ") the merger would require a sign off from the Council.

Management commissioned this assurance review to assess whether the Project Forth programme, from a delivery perspective only, has been set-up for success to deliver the programme objectives for the Council and LPF, and other impacted stakeholders.

The review took place against the backdrop that approval for the proposed merger has not yet been obtained due to, primarily, delays in finalising the NewCo legal structure, which resulted in the proposed merger date being moved from March 2023 to September 2023. As such, the Business Case, plan, and all related documentation is currently being updated. There is a conscious effort to be ready for the merger, whilst not overcommitting resource. All observations and recommendations should be read in this context.

Scope

This review focussed on an initial programme health check to provide a baseline understanding of the programme, its delivery mechanisms, and of key risks and controls.

It assessed key aspects of the programme against best practice, and against the PwC 12 elements of delivery excellence (detailed aside) and provided feedback on the effectiveness to manage and address key risk and/or focus areas including ensuring appropriate governance processes and structures are in place to achieve success.

It was performed by review of programme documentation, as well as interviewing a sample of workstream stakeholders. No stakeholders from Falkirk Council Pension Fund (FCPF) were interviewed due to their capacity constraints.

Limitations of scope

We did not formally assess the operating effectiveness of controls, any insights identified through the course of the audit work have been raised accordingly. Evidence was reviewed at a point in time and is not intended to provide ongoing or retrospective assessment of the controls over a period.

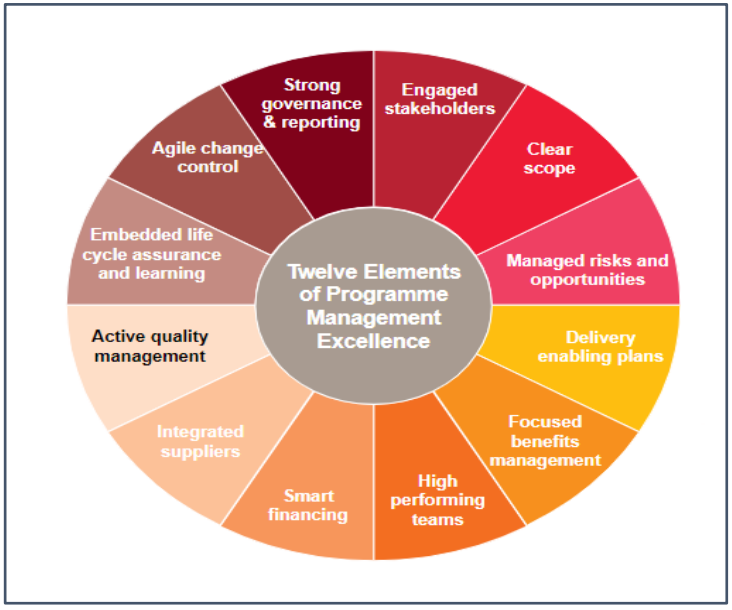
Risks

The programme has not been set-up or delivered in a way that will achieve the merger objectives and benefits.

Reporting Date

The review was iterative as it covered a 'look back' on initial project governance documentation, as well as execution of the project plan to date. As such, no specific testing period was applicable.

Our audit work concluded on 18 November 2022, and our findings and opinion are based on the conclusion of our work as at that date.



Executive Summary

Overall opinion and summary of findings

Overall, the review did not highlight major project management gaps, significant risks or control issues. There is a conscious effort to be ready for the merger, whilst not overcommitting resource however, the replanned timeline of the proposed merger date, as well as the related business case refresh, provides an opportunity to re-align and enhance the project plan, and related governance documentation, with regards to the following:

- **Change Control** - whilst an informal process was clearly demonstrated for the above-mentioned merger date change, a formal 'top down' Change Control policy and process is not documented to ensure changes are appropriately governed (Finding 1).
- **Assurance and Learning** - discussions with Internal Audit regarding performance of 'embedded real time assurance', as well as detailed 'execution audits' over Project Forth are ongoing. The nature, extent and timing have hence not been agreed or integrated into the project plan to provide confidence in project delivery and progression through the various stage gates (Finding 2).
- **Benefits Management** - a formal process for recording, monitoring, and managing expected benefits highlighted in the Business case, should be established. Furthermore, benefits were not mapped to specific tasks on the plan (Finding 3).
- **Risk Management** - a formal 'top down' Risk Management process is not documented. Risk is considered to be managed through the Risks, Assumptions, Issues and Dependencies (RAID) log. Risks and dependencies were not mapped from the Business Case to the RAID log where appropriate (Finding 4).
- **Quality Management** - a formal 'top down' Quality Management approach and plan is not documented. This would provide assurance that the approach to quality would be managed from the outset, and that the project would achieve its intended results, while preventing or reducing quality issues which may impact the success of the project's delivery (Finding 5).
- **Operations/IT -** a formal migration plan to perform a test run by moving the bulk data to the new test system is not documented. It is acknowledged that negotiations with Heywoods are currently in progress, after which the granular detail will need to be agreed (Finding 6).
- **Delivery enabled plans** - a critical path is not yet defined in the project plan (Finding 7).

Areas of Good Practice

Our review identified the following good practices:

- **Project Governance and Reporting** - the project is run by an externally appointed Project Manager with a detailed plan. It is well governed with high levels of senior stakeholder engagement, clear organisation charts, governance meeting structures, terms of reference etc. This was corroborated by positive feedback received from interviewees.
- **Scope Management** - a very detailed business case exists which was compiled by Deloitte. It contains detailed scope related information and was used to produce the Project Initiation Document (PID).
- **Communications** - a plan covering staff, employers, Associations, Boards and Committees, Councillors etc. is documented, and executed. 'Intention' communications have also been drafted and approved at Steerco for the various outcomes i.e., if the merger does/does not take place. Change related communications were sent out to all impacted stakeholders with regards to the change merger date.
- **Stakeholder management** - stakeholders interviewed were positive about the running/management of the project and its outcomes, received clear communications (see above), had the opportunity to provide input, and there were no significant concerns with regards to the project being set-up for success.
- **Financial Management** - each workstream has their own budget. Tracking thereof is an iterative process which is overseen by the Financial Controller, who actively engages with the Finance Workstream Leads.

Findings and Management Action Plan

Finding 1 – Absence of a Change Management policy

Finding Rating	Medium Priority

A formal 'top down' change control governance/process policy has not been documented and communicated to project team members.

It is acknowledged that there is reference to change control in the Governance Document (V1.1) which states frequency, inputs, and outputs. There is also a change control form for the change relating to the 'Programme Completion Date Change' which is in the RAID log, and in the September 2022 Steerco pack, moving the suggested merge date from March 2023 to September 2023. Discussions with the PMO, as well as an inspection of the change control and the RAID log, provided comfort that an informal process existed, and interviewees confirmed that they would always approach the PMO with suggested changes and take their advice as to how to proceed. Management confirmed that more changes are expected after the merger is approved.

Risks

- Staff may not have guidance/understanding of key processes leading to inconsistent approach, lack of appropriate audit evidence being retained etc.

Recommendations and Management Action Plan: Change Management Policy

Recommendation	Agreed Management Action	Action Owners	Timeframe
Management should formally document, approve, and communicate the current informally applied change management policy to all appropriate stakeholders. This should reference all currently used documents and should cover: ● what constitutes a significant change ● when/how to undertake change ● the documentation levels required ● potential Red, Amber, Green (RAG) ratings ● resolution times for each priority level currently defined in the RAID log. Once complete, this policy should be referred to in the Governance policy document (V1.1), as well as the RAID log to link all existing project governance documentation.	Insert management action	CEO / CRO / PMO	XX/XX/20XX

See Appendix 1 for Control Assessment and Assurance Definitions

Finding 2 – Absence of an Assurance plan

Finding Rating	Medium Priority

According to section 12 of the PID: *'An external sourced Internal Audit programme will be commissioned. It will report to the JOG, and through this to the Audit Committee and/or Pension Committees of LPF and FCPF, and then in turn NewCo Board and/or Audit Committee. Both FC and CEC will be recipients of the reports. Agile, project audit methodologies and approaches will be taken to enable rapid lessons learnt and opportunity to remediate / recover / improve. No second line assurance will be undertaken'.*

Review of the 'Project Management' section on the 'Plan on a page' from the September 2022 Steerco contained: 'Set up audit' i.e., this project health check, as well as 'Execution audits'.

LPF are in discussions with Internal Audit to perform 'embedded' assurance via attendance at Board meetings, as well as performance of 'deep dive' reviews on specific areas; however, the nature, extent and timing of these reviews have not yet been agreed and are hence not linked to specific project milestone stage gates.

Furthermore, there has been a conscious and deliberate deviation from the PID. This review was commissioned via the Council Internal Audit Function, rather than externally.

Risks

- The lack of independent assurance could result in project milestones being approved that have missed / lacked key elements.
- Missed improvement opportunities.

Recommendations and Management Action Plan: Assurance plan

Recommendation	Agreed Management Action	Action Owners	Timeframe
The Council and LPF should agree and plan internal audit, and any other programme assurance related activities such as those over data migration. These should be entered onto the plan to support key project milestone stage gates. The deviation from the planned assurance as per the PID should also be tabled at Steerco for visibility/transparency.	Insert management action	CEO / CRO / PMO	XX/XX/20XX

Finding 3 – Absence of a Benefits Management plan

Finding Rating	Medium Priority

A formal Benefits Management plan/approach is not documented. It was confirmed by an interview of the CEO/Project Sponsor that the organisation knows what to do, but that it has not yet been formalised. It is acknowledged that benefits will only be realised post-merger however, there is an opportunity to put the framework in place, communicate this to stakeholders, and incorporate it into project documentation prior to the merger. This will be a vital input into the post project evaluation proposed in the revised Business Case.

It is acknowledged that the benefits will be dependent on the structure that is ultimately approved.

Risks

- inaccurate and/or incomplete benefits recording, tracking, measurement, and reporting.
- unnecessary/non-value-added work is performed.

Recommendations and Management Action Plan: Benefits Management plan

Recommendation	Agreed Management Action	Action Owners	Timeframe
A formal Benefits Management plan/approach should be documented, approved, and communicated to all appropriate stakeholders. Typically, this would include plans for at least: • identification • evaluation • planning • realisation • review The plan/approach should be referenced in the PID, and benefits should be mapped to specific tasks, risks, and deliverables.	Insert management action	CEO/CRO	XX/XX/20XX

Finding 4 – Absence of a Formal Risk Management approach

Finding Rating	Medium Priority

From review of the RAID log, as well as from discussion with key stakeholders, most key elements of effective Risk Management have been considered; however, the overall Risk Management approach, and plan, has not been formally documented, and cascaded down to appropriate stakeholders.

Risks

- risks are not proactively identified, assessed and managed, thus reducing the likelihood of achievement of project objectives.

Recommendations and Management Action Plan: Formal Risk Management approach

Recommendation	Agreed Management Action	Action Owners	Timeframe
A formal Risk Management plan/approach for identifying and capturing risks, assigning owners, and tracking and mitigating risks should be documented, approved, communicated to all appropriate stakeholders, and referenced to in the PID. The RAID log should be updated to include the milestones, dependencies, and benefits (see finding 5) that are impacted by each risk. The revised Business Case should be used as a source for this exercise; this will create clear linkage between, and visibility of, all key project documentation.	Insert management action	CRO / PMO	XX/XX/20XX

Finding 5 – Absence of a Quality Management plan

Finding Rating	Low Priority

A formal quality management approach and plan that describes the processes and metrics that will be used to manage quality, as well as defining the various responsibilities for achieving the required quality levels during the project, is not documented, and is therefore not included as part of the Project Initiation Document (PID).

Milestones, deliverables, and critical success factors are documented on Workstream Initiation Documents (WIDs), which could form the basis for a plan.

Risks

- Quality standards not maintained
- Inconsistent project results
- Performance not being maintained
- Lack of continuous project improvements
- Inconsistent project document control

Recommendations and Management Action Plan: Quality Management plan

Recommendations	Agreed Management Action	Action Owners	Timeframe
A formal, risk based, quality management plan should be documented, approved by all key stakeholders, and referenced to in the PID, RAID, and all other appropriate governance documentation. The plan should be robust and cover, at minimum, the following elements: • quality planning, • assurance (testing) • control • continuous improvement • roles and responsibilities Management should also ensure that staff used for assurance/testing are appropriately skilled i.e., have received appropriate training.	Insert management action	CEO/CRO	XX/XX/20XX

Finding 6 – Absence of a Data Migration plan

Finding Rating	Low Priority

Data to be migrated to NewCo is split into two sets.

1) 'Internal' LPF and Falkirk data: This includes data on shared drives, emails, and paper documentation. A 'data discovery' exercise is being executed by the IT workstream to determine the scope/quantity of other data held; this has been done before in the migration of data from Edinburgh Council to LPF.
2) Pensions administration data: Both LPF and FCPF use Heywoods, who will merge the two sets of data. This data is member records (including payroll information) and scanned documents. The Falkirk team are working to complete final scanning of member information forms.

It is acknowledged that this has been signposted in the detailed plan.

There is a lack of a data migration approach and plan, including test cycles in advance of the full migration, as well as related roles and responsibilities. It is acknowledged that the engagement and negotiation with Heywoods is currently in progress, after which the granular detail will be agreed.

Risks

- Accuracy, completeness, and timeliness of the data migrated to NewCo.

Recommendations and Management Action Plan: Data Migration Plan

Recommendation	Agreed Management Action	Action Owners	Timeframe
As soon as is practicable after merger approval, a migration plan should be agreed with Heywoods; this should be included in all appropriate governance documentation. This should cover, at minimum: • completeness, accuracy, and timeliness of data migration • definition of an agreed 'cut off' point for existing systems • roles & responsibilities i.e., Access, administration, change control etc. Any additional features / changes within the existing Heywoods application should also be documented as a user training manual post migration.	Insert management action	CEO/CRO	XX/XX/20XX

Finding 7 – Absence of a ‘critical path’

Finding rating	Low Priority

No ‘critical path’ existed on the current project plan. It is acknowledged that this is a result of the lack of approval of the merger, and hence, of the resulting legal structure. As such, the critical path could vary depending on the structure that is approved, and on the agreed merger date.

Management should, however, not lose sight of the need to document this.

Risks

- The project focus may be diverted to ‘non-core’ activities.

Recommendations and Management Action Plan: Critical Path

Recommendation	Agreed Management Action	Action Owners	Timeframe
Management should: • define a ‘critical path’ and ensure that all workstream leaders understand it - particularly the key milestones • create an escalation process to address any threats to the critical path at the earliest opportunity - this could be done through the RAID log • document the impact of the critical path through all workstreams, considering findings 1 - 6.	Insert management action	CEO/CRO/PMO	XX/XX/20XX

Appendix 1 – Control Assessment and Assurance Definitions

Overall Assurance Ratings	
Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Appendix 2 – Key documents considered for review and stakeholders interviewed/engaged

Document name	Interviewee
Deloitte Business Case	Anne Mitchell - IT Workstream Lead
Workstream Initiation Document (WID)	Erin Savage - Operations and Actuarial Workstream Lead
Programme Initiation Document (PID)	John Burns (CFO) and Jason Koumides - Finance
Workstream Terms of Reference (ToR) and report packs	Alison Robb - Communications Workstream Lead
Steering group Terms of Reference (ToR) and report packs	Susan Handyside - Governance Workstream Lead
Pensions Committee Minutes	David Vallery - CEO and Project sponsor (input by email)
Project Forth Governance Document V1.1	
Risk, Actions, Issues, Decisions (RAID) log	
Heads of Terms (HoT)	
Intention Communications	

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Pensions Audit Sub Committee

2pm, Tuesday, 6 December 2022

Lothian Pension Fund - Internal Audit – External Quality Assessment

1. Recommendations

The Pensions Audit Sub Committee is requested to note:

1.1 the outcome of the External Quality Assessment (EQA) of the Council's Internal Audit function (IA) completed by the Chartered Institute of Internal Auditors (IIA) in March 2022;

1.2 the IIA recommendations to address the issues identified, together with IA's management response and action dates;

1.3 the continuous improvement opportunities identified in the EQA, and improvement actions taken by IA to realise these opportunities; and

1.4 that updates on IA's EQA improvement activities will be provided to Committee on a quarterly basis through the IA quarterly update report.

Laura Calder
Senior Audit Manager, City of Edinburgh Council
Legal and Assurance, Corporate Services Directorate
E-mail: laura.calder@edinburgh.gov.uk| Tel: 0131 469 3077

2. Executive Summary

2.1 During 2021/22, the Chartered Institute of Internal Auditors (IIA) undertook an External Quality Assessment (EQA) of the City of Edinburgh Council's Internal Audit (IA) function in line with the requirements of the Public Sector Internal Audit Standards (PSIAS).

2.2 The EQA concluded that the Council's IA function generally conforms with the PSIAS, which set out the expected standards for internal auditing, including a code of ethics, core principles and international standards.

2.3 Two recommendations were made by the IIA to address partial conformance with standards. Management responses and action dates have been agreed.

2.4 The EQA report also identified a series of continuous improvement opportunities and suggestions which IA should use as a basis for future development. IA has implemented a range of improvement actions to take forward these opportunities.

3. Background

3.1 The City of Edinburgh Council is the administering authority for the Lothian Pension Fund (LPF). The Council's Internal Audit function is responsible for assessing and reporting on the effectiveness of LPF's internal control environment, and provision of an annual audit opinion to the Pensions Audit Committee.

External Quality Assessment (EQA)

3.2 The PSIAS require all IA functions to have an external quality effectiveness review completed on a five-yearly basis. The objective of the review is to promote improvement in the professionalism, quality, consistency, and effectiveness of IA across the public sector.

3.3 An EQA of the Council's IA function was undertaken by the Chartered Institute of Internal Auditors (IIA) during 2021/22. The timescales for completion of the review were as follows:

- planning for the review was completed in November / December 2021; and
- fieldwork including review of processes and stakeholder engagement was completed between January and March 2022
- draft reporting between April and May 2022, and a final report detailing outcomes was presented to the Council's Governance, Risk and Best Value Committee in October 2022.

4. Main Report

4.1 This report provides the Committee with a summary of the outcomes of the EQA of the Council's IA function completed by the IIA in 2021/22. A copy of the final IIA report in full is available here.

External Quality Assessment Outcomes

4.2 The IIA concluded that the Council's IA function is generally conforming with the PSIAS.

4.3 Two recommendations to address partial conformance with the standards were made by the IIA. Details of these together with IA's management response and actions dates are provided in the table in Appendix 2.

4.4 Further detail on the IIA feedback and recommendations is provided in section 2 (pages 8 - 9) of the full EQA report.

Continuous Improvement Opportunities

4.5 The EQA also provided suggestions for further development based upon the wide range of guidance published by the IIA, with an aim to offer advice and a degree of challenge to help IA functions continue their journey towards best practice and excellence.

4.6 The IIA identified a series of continuous improvement opportunities and suggestions which the Council's IA function should use as a basis for future development.

Internal Audit EQA improvement actions

4.7 The Council's IA function is committed to continuous improvement and have implemented a range of improvement actions to realise the improvement opportunities identified by the IIA during the EQA.

4.8 Following receipt of the draft report, IA identified 'quick wins' and introduced with immediate effect, a number of changes to IA processes and procedures.

4.9 Details of the improvement opportunities identified during the EQA and IA improvement actions to address these are set out in the table in Appendix 2.

4.10 Full details of the improvement opportunities are provided at section 3.2 (pages 12 - 13) within the EQA report.

Implications for LPF Audit work

4.11 Since 2021, completion of audits supporting the LPF annual plan has been mainly undertaken by the Council's co-source partners Price Waterhouse Coopers (PWC) with oversight from the Council's IA Chief Internal Auditor.

4.12 Much of the audit work undertaken for LPF is specialist in nature, with PwC processes and methodology applied, including PwC internal quality assurance reviews to ensure that audit reports and findings are accurate.

4.13 It is acknowledged that the EQA report refers to IA work within the Council, however where relevant, IA will (in consultation with LPF management) reflect any identified changes to processes, procedures and methodology into any future pensions audit undertaken.

4.14 The two recommendations in relation to risk based annual planning and consideration of where reliance can be placed on other assurance sources will inform development of future LPF annual plans, where relevant.

4.15 Improvement actions including introduction of a risk-based follow-up process, shorter focused audit reporting and committee reporting will apply to audit work undertaken for LPF from September 2022 onwards.

4.16 Steps to improve engagement and working relationships between the Council's IA function and LPF management have been taken with positive outcomes evident. This includes regularly reporting of IA activity to the committee on a quarterly basis.

5. Next Steps

5.1 Progress updates on IIA recommendations and improvement opportunities will be provided to LPF through the IA quarterly update report, where relevant.

5.2 IA will complete an ongoing annual self-assessment of compliance with the PSIAS, the outcomes of which will be reported in the LPF annual opinion.

6. Financial impact

6.1 There are no direct financial impacts arising from this report, although failure to ensure that scopes of audit engagements are risk based and proportionate could have a financial impact.

7. Stakeholder/Community Impact

7.1 Stakeholder impacts are detailed within this report and will be captured through audit surveys with a summary of key themes reported on a six-monthly basis to the Pensions Committee.

8. Background reading/external references

8.1 Public Sector Internal Audit Standards (PSIAS)

8.2 The City of Edinburgh Council's External Quality Assessment of Internal Audit – report by the Chartered Institute of Internal Auditors (item 8.1)

9. Appendices

9.1 Appendix 1: IIA EQA Report - Table of recommendations

9.2 Appendix 2: EQA – IA improvement opportunities and actions

Appendix 1: IIA EQA Report - Table of recommendations

Recommendation 1 - Audit Planning (to address partial conformance with standard 2010)
We recommend that the methodology for the design of the audit plan is updated to ensure a risk-based approach focused more on the Council's strategic risks, core governance and control areas. We recommend the approach includes: • Presentation of the plan starting from the Council's critical risks with demonstration of alignment and explanations of any different views held by internal audit on the risk areas. • A mix of engagement styles from more light touch to more in-depth reviews and upfront advisory work. • Highlighting the engagements on which the annual opinion has a key dependency at the outset to ensure these can be prioritised for delivery.
Management Response and Action Date
Agreed, the methodology applied to the risk and control effectiveness assessments supporting the IA annual plan was revised in March 2021 to align with the Council's refreshed operational risk management framework and therefore the Council's key risks. This included extending the rolling coverage of all areas from 3 to 5 years and introducing a range of engagement styles (including light-touch Covid-19 reviews and consultancy work). It is acknowledged that further refinement of the annual planning process would be beneficial to enable a dynamic and flexible approach aligned to priorities and available resources. This will be taken into consideration for the mid-year review of the 2022/23 plan and the 2023/24 plan year onwards. **Action date: 31 March 2023**
Recommendation 2 - Audit Co-ordination (to address partial conformance with standard 2050)
As the maturity of the risk management framework improves and further second line activity is embedded (e.g., in the role of the Operations Managers), the approach to internal audit planning should be re-considered to take account of other sources of assurance even if they are not yet fully mature.
Management Response and Action Date
Agreed, work is ongoing to design and roll-out the Council's Governance and Assurance framework which will help coordinate and / or complete first line governance; risk management; and assurance activities which IA can then take account of and place reliance on. The framework is expected to be operational by 31 March 2023. In the interim, and in addition to the above, IA will take into account other first line assurance processes and sources in operation when planning engagements to establish the extent to which reliance can be placed and to avoid duplication where possible. **Action date: 30 June 2023**

Appendix 2: EQA – IA improvement opportunities and actions

1. Engagement Audit Methodology
a) The approach to the audit plan should be revised to focus on business-critical risks and core controls at organisational level. Re-based audit plans should provide an option for delivering an internal audit opinion only in relation to the work completed, (i.e., limited in scope). b) A clearer focus is required on the link between the Council's critical risks, the internal audit programme, and core controls with consideration of completing quarterly or six-monthly planning reviews. c) The audit engagement process should be redesigned, and the scope of the audits undertaken should clearly focus on the key risks and key controls under review.
IA Improvement actions
a) IA has engaged with Council services to develop a proposal for a re-based 2022/23 IA annual plan with the aim of ensuring a focus on the current business-critical risks and core controls aligned to available resources. b) It is proposed that the annual plan is reviewed quarterly from 2023/24 onwards this will ensure that the audit plan continues to be aligned to business-critical risks and priorities. c) A review of our electronic working papers and audit methodology has been completed and the audit process has now been simplified and streamlined. Scoping of audits has also been streamlined to ensure a focus on key risks and controls, with shorter focused terms of reference.
2. Closure of Audit Actions
a) The follow-up process should be revised to review supporting evidence on a risk-based approach.
IA Improvement actions
a) The IA follow-up process has been revised, with a move from the current full review and validation of 100% of management actions to a risk-based approach based on the rating of recommendations made.
3. Risk Resolution Processes and Responsibility for Acceptance of Risk
a) If the audit plan and audit engagements undertaken focused on key controls the need for risk acceptance would be far less as the audit recommendations would be more likely to align to significant matters. b) The boundaries of responsibility require to be clearly re-drawn, internal audit are responsible for exposing the risk, management are responsible for considering and responding to this. A

clear understanding must be in place that the level of risk tolerance and risk appetite is a matter for management, as are the potential consequences of deciding to accept a risk.

IA Improvement actions

a) Scoping of audits and terms of reference have been streamlined to focus on key controls. In addition, recommendations made will consider management's risk appetite in the relevant areas.

b) IA are clear on responsibilities for risk acceptance – with recognition that management is responsible for considering and responding to this. The IA risk acceptance proforma captures the service's understanding of mitigating actions and residual risk. This is processed by IA following approval from the relevant Executive Director/Chief Officer.

4. Audit Reporting

a) The internal audit reporting we reviewed including the annual plan, engagement reports and annual opinion were lengthy, largely word-based documents. This makes it more difficult to ascertain key messages and hinders stakeholders who have limited time available to review and comment on the content of the reporting.

We suggest the style of reporting requires an overhaul to introduce more concise reporting with headlines key messages and use of graphics, to convey messages

IA Improvement actions

a) The style of the internal audit report has been revised to ensure that our reporting is more concise and clearer, with key messages highlighted and easy to understand.

A dashboard has been introduced for monitoring and reporting IA activity including progress with implementing agreed actions; audit plan delivery and key performance indicators for both services and IA.

Reports for Committee have been streamlined to ensure a focus on key messages and scrutiny of performance.

5. Monitoring of Internal Audit Performance

a) The audit engagements reviewed were significantly over their day's budget which appears to be a frequent issue. A revision of the engagement methodology will help in this regard.

Internal Audit have a timesheet system to enable greater insight as to the usage of internal audit resources. This is a positive step and should be used to provide insight on the usage of internal audit time and comparison to budget allocations.

We also note there is an intention to introduce metrics reporting (e.g. against the audit reporting milestones) and undertake an annual stakeholder survey. We welcome both of these

initiatives which will provide information on the effective delivery of the internal audit programme.

IA Improvement actions

a) The proposals for the re-based 2022/23 IA annual plan will enable delivery of the IA plan within the capacity and resource available with limited need for external co-source (PwC) resources, with the exception of audits in specialist areas such as Information Technology and Pensions.

Revisions to the IA methodology and scoping have been implemented to ensure a focus on key risks and controls only, and alignment to the time budgeted for the audit.

Timesheets are currently completed for each audit and audit stage; this data will be used to inform a realistic and achievable 2023/24 IA annual plan.

Audit surveys are issued following completion of every audit, with generally positive feedback received from service areas. Key themes are reviewed, and improvements identified where required.

6. Role of Head of Audit and Risk

a) The need for more deputising of the Head of Audit & Risk role was commented on by internal audit team members and stakeholders. Whilst it is understood deputising takes place to some degree, this is not transparent to many stakeholders who would value more 1:1 engagement with other senior internal audit team members.

b) We note that the Head of Audit took on the additional role of Head of Risk in 2020. There are adequate safeguards in place to ensure this does not impact on the independence of internal audit. However, we note that, considering the challenging environment especially in relation to debates around risk appetite, having the same individual responsible for both audit and risk, may not be the best option in this case. A range of voices in regard to risk management arrangements would be preferable in the longer term.

IA Improvement actions

a) The structure of the IA function is currently being reviewed to ensure less key person dependency at Head of Audit level, and to enhance opportunities for stakeholder engagement and development across the IA team.

b) The structure of the Risk Management function is also being reviewed, with the Head of Health and Safety (who has considerable local government risk management experience) currently managing the function on an interim basis.

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Pensions Audit Sub-Committee

2pm, Tuesday, 6 December 2022

Lothian Pension Fund - Internal Audit Review 2022

1. Recommendations

The Committee is requested to note and comment on:

1.1 The proposals being considered to extend and improve the scope and provision of Internal Audit services for the LPF Group and the intention to bring final proposals to the March 2023 Pension Committee for decision.

David Vallery
Chief Executive Officer, Lothian Pension Fund

2. Executive Summary

2.1 The Boards of LPFI and LPFE have noted that it is now appropriate to review the current absence of internal audit of those companies and indicated an intention to introduce a programme of internal audit from the 2023/24 financial year. Further that any such programme would logically be planned and implemented as part of an integrated programme of internal audit with the Fund itself, and the second line assurance arrangements undertaken and arranged by the Risk function of LPF.

2.2 The intention then would be for a joint appointment of an internal audit provider to undertake a single integrated audit programme and prepare an unlimited Annual Audit Opinion unlike todays limited opinion (expressly excluding LPFI and LPFE from scope).

2.3 Options for this single audit provider will be considered and could be a continuation of the CEC Internal Audit team, supported by a co-source arrangement, or a direct appointment. The current terms of reference for the Pensions Committee give them the powers to make such an appointment.

2.4 A single provider, with the Pensions Committee and corporate Boards as clients would, if properly managed, enable a more tailored and efficient process to meet the needs of LPF and is aligned to the supplier strategy as articulated in the 2022/23 strategy and business plan.

2.5 Any future audit reports and Annual Audit Opinion will still be made available to CEC and therefore there is not expected to be any change in oversight by CEC in its role as Administering Authority.

2.6 Subject to feedback from the Committee, the intention would be to revert in March 2023 with final proposals including the proposed supplier of internal audit services, the costs of such services, and a more comprehensive articulation of the costs, benefits and implications of any proposals.

2.7 Officers would intend to confirm with CEC that there are no issues in progressing any proposals prior to consideration in March.

3. Background

3.1 As set out in the City of Edinburgh Council Committee Terms of Reference, the Pension Committee has the delegated authority to ‘secure best value in the provision of services and reviewing the control and assurance environment (including internal audit processes) for the Lothian Pension Fund group.

3.2 The draft internal audits and plan are developed in consultation with the Convenor of the Audit Sub Committee and the CEO (LPF). The Audit Sub Committee (ASC) receives individual internal audit reports, and an annual audit opinion on behalf of the Pensions Committee, as well as updates on progress with any agreed actions resulting from the audits.

3.3 Delivery of the annual audit plan is currently the responsibility of the CEC Internal Audit team ("CEC IA"). CEC IA have a co-source arrangement with PWC and in recent years LPF audits have been carried out by a combination of CEC IA resource and PWC resource. The CEC IA methodology is used, and CEC IA manage delivery by PWC and sign-off all terms of reference and audit reports. Recently CEC have had an employed Chief Internal Auditor, a currently vacant position, and previously a PWC secondee in that role.

3.4 The use of PWC to undertake the audits means that LPF benefits from both specific financial services expertise and wider specialist expertise such as information security than is possible from within the CEC IA team.

3.5 Currently CEC officers are required to approve audit terms of reference, audit reports and are formally designated owners of actions.

3.6 Neither LPFE nor LPFI are currently included within the audit scope in preparing audit plans and the annual audit opinion of LPF. The Boards of LPFE and LPFI have previously been satisfied that there is no need for internal audit of those entities, and instead have relied on periodic external assurance reviews.

3.7 Throughout 2019-2022 period, covering three annual programmes, and for a variety of reasons the programme wasn't delivered as effectively as desired. Changes were discussed in late 2021 although not proceeded with given the expectation of Project Forth. Although Forth remains the strategic intent it is not felt necessary or beneficial to delay seeking improvements.

4. Main Report

LPFE / LPFI

4.1 The Boards of LPFE and LPFI have recently considered the current absence of internal audit and recognised that with the evolution of those businesses, and especially LPFI, it is necessary to review whether an internal audit programme should be introduced.

4.2 The LPFI Board have noted that three lines of defence ("3LOD"), where the third line is internal audit, is an expectation of regulated financial services companies.

4.3 Both Boards recognise the inter connectivity between LPFE, LPFI and the provision of services in relation to the Fund. Therefore, any internal audit plan for LPFE and LPFI would need to be co-ordinated with that of LPF itself. A single party undertaking

audits isn't essential provided there is coordination of plans and appropriate sharing of results, but there is merit in a single provider and single method.

4.4 The Boards have noted the intention to review arrangements for the audit of the Fund and indicated support to develop proposals that would introduce a single integrated approach to audit.

LPF Internal Audit

4.5 The recent use of PWC to undertake most (2021/22) and all (2022/23) internal audits of the fund has given LPF the benefit of specific expertise and flexibility of resource rather than relying solely on CEC IA.

4.6 CEC could continue as the sole provider, or more likely lead supplier, manager and take the role of Chief Internal Audit to the LPF Group, being the Fund and corporate subsidiaries LPFE and LPFI.

4.7 Alternatively, the Committee and Boards could appoint an external party and contract directly with that party.

4.8 The intention will be to consider options more fully including:

4.8.1 CEC IA's willingness and ability to extend their scope to cover LPFE / LPFI.

4.8.2 Whether a public procurement exercise is required either to vary the current arrangements with CEC to cover LPFE/I, for LPFE/I to appoint their own internal auditor, or for a new single supplier to be appointed.

4.8.3 The benefits as well as risks in the LPF programme being managed alongside the wider CEC internal audit programme

4.9 LPF currently pays for internal audit services from both CEC IA and PWC and so the expectation would be that this change could be achieved at minimal additional cost. Any additional audits of LPFE and LPFI would be an additional cost and there may be additional costs if either an external firm or LPF itself took the role of Chief Internal Auditor.

LPF audits and CEC

4.10 Currently the results of LPF audits are noted within CEC but the reports are not considered within the relevant CEC Governance, Risk and Best Value Committee which acts as an audit committee for CEC. This could continue in the new arrangements.

4.11 Currently CEC officers have a role in approving the terms of reference, signing off reports and are named as action owners. This may provide additional value to CEC in its role as Administering Authority and this should be tested against its impact on

efficiency, effectiveness and accountability. Similarly, it will be possible to maintain input from CEC into the construct of the audit plan as currently happens.

Project Forth

4.12 These proposals are made independently of Project Forth although they are aligned with changes that would be required under that project where the governing body of the merged fund would be wholly accountable for internal audit arrangements.

5. Financial impact

5.1 There is not expected to be any significant difference in the costs of individual audits.

5.2 The overall cost of the audit programme will increase if additional audits are undertaken to give appropriate coverage to LPFI and LPFE. An element of these additional costs will be recovered from the corporate clients of these firms.

5.3 The cost of the Chief Internal Auditor may change if rather than being a recharge of a proportion of time of the CEC CIA, an alternative arrangement is made. This will be tested as part of further progressing the proposals.

6. Stakeholder/Regulatory Impact

6.1 There is no direct regulatory impact for LPF although the ASC should note that introducing internal audit for LPFI will remove one potential regulatory question given the expectation within regulated firms.

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Pensions Audit Sub Committee

2.00pm, Tuesday, 6 December 2022

EU Tax Claims and other Income Tax Recoveries

1. Recommendations

The Pensions Audit Sub Committee is requested to:

1.1 note the report and highlight any points it would like to raise at the Pensions Committee on 7 December 2022.

1.2 note that the Fund has withdrawn from all Manninen and Foreign Income Dividend and also Manufactured Overseas Dividend reclaims. As the success of these reclaims was uncertain, they only appeared as a contingent asset note in the Fund's audited annual accounts. Withdrawal from these reclaims has no impact on the "bottom-line" figures reported.

1.3 note that, in future, progress on Fokus reclaims will be covered in the Investment Income Review Cross Border Withholding Tax paper

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EU Tax Claims and other Income Tax Recoveries

2. Executive Summary

2.1 This report summarises activity on EU and other special tax claims made on behalf of Lothian Pension Fund. During the period covering the last two reports, no additional claims have been paid and the amount recovered to date remains at £1.37m. Progress on outstanding claims is discussed in detail within the report. The main developments are:

2.2 Lothian Pension Fund has withdrawn from the Manninen and Manufactured Overseas Dividend claims; and

2.3 WTax has made additional Fokus claims in Germany on a no win no fee basis.

3. Background

3.1 EU tax claims relate to the recovery of tax deducted from dividend payments prior to receipt. The claims are based on a fundamental principle of EU law, that member states should not discriminate in the application of national taxes between home taxpayers and those in other member states in a way that is likely to hinder the free movement of capital. The claims can be divided into three main types – Manninen / Foreign Income Dividends (FIDs), Manufactured Overseas Dividends (MODs) and Fokus.

4. Main Report

Claims – Manninen / Foreign Income Dividends (FIDS)

4.1 These claims were against the UK tax authorities. The FIDs claims were based on the UK providing for the repayment of tax credits on UK dividends but not on Foreign Income Dividends (FIDs) paid by UK companies. Manninen claims concern whether the UK breached EU law in denying claims for tax credits on overseas dividend receipts.

4.2 The claims are for tax credits and are based on the rate of advance corporation tax in place in respect of the overseas dividends. Estimates showed that Lothian Pension Fund could benefit by up to £2.6m from successful Manninen and FID claims. A cost benefit analysis concluded that a claim should be lodged, and this was done on 9 February 2006.

4.3 HMRC has rejected all claims of this nature. As a result of Counsel's opinion on the prospects of the claim and the estimated costs for High Court proceedings BT Pension Scheme withdrew as the test claimant for these claims. The request for a new test claimant was unsuccessful and Lothian Pension Fund withdrew the claims in July 2022.

4.4 Total fees incurred by Lothian Pension Fund on these claims amount to £69.5k (£67.5k as at the last update to Committee in December 2021).

Claims – Manufactured Overseas Dividends (MODs)

4.5 This claim was against the UK tax authorities. It was based on the fact that manufactured dividend receipts relating to UK shares were not subject to any UK withholding tax but receipts relating to manufactured overseas dividends suffered a UK withholding tax.

4.6 Claims in respect of manufactured dividends totalling £4,870.6k were lodged with HMRC on behalf of Lothian Pension Fund and KPMG appointed a firm of solicitors (Pinsent Masons) to pursue recovery.

4.7 Since the last report to Committee in December 2021, the Supreme Court released its decision on the MODs test case. The Court found in favour of Commissioners for Her Majesty's Revenue and Customs. As a result of this decision Lothian Pension Fund withdrew the claim in July 2022.

4.8 Following withdrawal from the claim there are no further contributions to costs for the claim, however, Lothian Pension Fund will be liable for a share of HMRC's adverse costs. An estimate for these is not yet available. Pinsent Masons expect that these costs will be unknown for at least a further 9 months from November 2022. On this basis, a contingent liability note would be included in the LPF financial statements 2022/23.

4.9 Fees incurred to date on these claims amount to £222.4k (£203.7k as at the meeting of December 2021).

Claims – Fokus Bank

4.10 These claims are against the tax authorities of the EU member states (and Norway) in which the Fund has invested. The basis of the claims is that the tax authorities have applied favourable tax treatment to domestic pension funds that they have denied to pension funds in other member states.

4.11 The Pensions Committee of October 2007 approved making claims under the principle established in the Fokus Bank case. Claims currently estimated at around £6.8m (£6.1m as at the meeting of December 2021) have been made.

4.12 Since the last report in December 2021, a specialist tax recovery company, WTax, acting on our behalf, has made additional claims of €688.5k in Germany. WTax operate on a no win no fee basis, so Lothian Pension Fund has not incurred any costs in making these additional claims.

4.13 No further claims have been paid since the last report in December 2021. KPMG has reported that the French Tax Authority (FTA) is now actively addressing claims and has started issuing information requests from claimants. KPMG therefore believes that the FTA are now looking to resolve the French claims. There has been no update regarding the German claims and KPMG still awaits the Munich court's ruling following the positive ruling from the CJEU in the Canadian pension fund case.

4.14 Fees incurred to date on these claims amount to £390.5k (£390.5k as at the meeting of December 2021). Costs are higher for the Fokus Bank type claims because of the need to file claims separately in individual EU countries.

4.15 Future reporting of these claims will be included within the Investment Income Review Cross Border Withholding Tax report.

5. Financial impact

5.1 Tax claims outstanding totalling £5.4m (£13.6m as at the meeting of December 2021) are currently lodged with the relevant tax authorities. Professional fees amounting to £682.4k (£663.7k as at the meeting of December 2021) have been paid to date. As noted above, Lothian Pension Fund is liable for a share of HMRC's adverse costs in relation to the MODs test case. Any other fees will only be incurred following a successful claim by WTax.

5.2 Currently, claims paid to date exceed the costs incurred by £687.7k (£715.4k as at the meeting of December 2021). So irrespective of the outcome of the remaining claims, Lothian Pension Fund will accrue a financial benefit. The financial position can be summarised as follows:

Claim Type	**Total Claims £'000**	**Claims Settled £'000**	**Claims Outstanding £'000**	**Costs to Date £'000**
Manninen	2,626.7	Nil	Nil – Withdrawn	69.5
Manufactured Dividends	4,870.6	Nil	Nil - Withdrawn	222.4
Fokus Bank	6,786.1	1,370.1	5,416	390.5
	14,283.4	**1,370.1**	**5,416**	**682.4**

5.3 Because of the uncertainty associated with the tax claims, amounts are only recognised in Lothian Pension Fund's accounts when funds are received.

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. The forward planning of the Committees' agendas should facilitate improved risk management and governance for the pension funds.

6.3 There are no adverse sustainability impacts arising from this report.

7. Background reading/external references

7.1 None.

8. Appendices

None.

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Pensions Audit Sub Committee

2.00pm, Tuesday, 6 December 2022

Data Quality Update

1. Recommendations

The Pensions Audit Sub Committee is requested to:

1.1 note the report and highlight any points it would like to raise at the Pensions Committee on 7 December 2022

Karlyn Sokoluk
Chief Operations Officer, Lothian Pension Fund

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Data Quality Update

2. Executive Summary

2.1 The purpose of this report is to inform the Pensions Audit Sub-Committee of the ongoing work to enhance the quality of the pension administration membership record data.

2.2 In accordance with its Pension Administration Strategy, the Fund continues in its efforts to improve the flow of data from employers through regular reporting and liaison.

2.3 This year the Fund has focused on cleansing member records for the annual benefit statement production and The Pensions Regulator scheme return. The Fund has also been preparing for the McCloud remedy and the Pensions Dashboards Programme.

3. Background

3.1 In previous years, Pensions Audit Sub-Committee noted the continuing work to ensure the good quality of pension administration membership record data.

3.2 The information demands of accurate record- keeping increased with the introduction of a scheme based on career average revalued earnings (CARE) in 2015. The Pensions Regulator expects that an administering authority should:

3.2.1 set out responsibilities to scheme employers clearly;

3.2.2 escalate any non-compliance to senior management (of the employers);

3.2.3 utilise the ability to impose (recovery of cost) charges; and

3.2.4 report individual scheme employers where their failure has caused a statutory breach.

3.3 The Fund procured a new analytical tool from the software supplier which is a more powerful data interrogation and visualisation tool than the existing reporting method. The tool is delivered with a number of standard dashboards and reports including the score measurement required by TPR based on a comprehensive analysis and on the percentage of clean member records without a single data failure.

3.4 The Fund sets out standards for provision of data from employers in an agreed Pensions Administration Strategy (**PAS**). It includes scope for the Fund to levy charges to cover any resultant costs if an employer's performance continues to fall below acceptable tolerances. This provision ensures that the administrative costs of

the Fund are borne equitably by all the employers. Criteria for passing on costs of poor performance by employers consist of any of the following;

3.4.1 Contributions received later than the regulatory standard;

3.4.2 Not regularly addressing membership data queries;

3.4.3 Consistently failing to meet service standard for new starts, leavers, retirements and deaths, and no clear commitment to improve; and

3.4.4 not submitting monthly contributions for each member via the secure portal.

3.5 Lothian Pension Fund utilises 2 employer portals. The first portal ("i-Connect") for the secure submission of monthly member updates and the second ("GoAnywhere") for secure document sharing. The Fund continues to collaborate with the supplier to integrate a document sharing facility with in the first portal. The first phase has been delivered to i-Connect allowing employers to submit forms which automatically creates a task and appends the document to the member's pension record. Since inception in January 2022 4,247 documents have been uploaded to member records using this facility.

4. Main Report

Pension Administration Strategy (PAS) performance 2021/22, to date

4.1 Fund-wide performance against PAS standards is reported each year in the Annual Report. Annual reports are issued to each employer outlining their own performance and comparing this to other employers of a similar size. Quarterly reports are also issued to the four Councils and on an exception basis to any employer whose performance merits specific intervention.

4.2 Overall employer performance for the first half of 2022/23 is shown below, with the full year of 2021/22 shown for comparison purposes

Employer performance		Quarter 2 2022/23			2021/22		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New Starters	20	4150	3830	**92%**	6099	5335	**87%**
Leavers	20	2319	1310	**56%**	2618	1459	**56%**
Retirements	20	735	242	**32%**	1422	544	**38%**
Deaths In Service	10	11	3	**27%**	32	20	**63%**

4.3 The following graph shows the number of employers falling into percentile groupings for each case type for the first half of 2022/23 and the number of member records they represent.

Percentile	New Starters	Leavers	Retirements	Deaths In Service
90% - 100%	33 (2421 records)	8 (48 records)	4 (6 records)	2 (3 records)
70% - 89%	3 (1729 records)	11 (763 records)	1 (6 records)	nil
less than 70%	nil	22 (1508 records)	19 (723 records)	4 (8 records)

4.4 The City of Edinburgh Council's performance, except for New Starters, continues to be poor, scoring in the bottom percentile group for three categories. Midlothian Council has the best overall performance of the four Councils and East and West Councils have shown improvement in their Leaver statistics. All Councils were in the bottom percentile group for Retirements.

4.5 As previously advised to Pensions Committee, the PAS was reviewed to add an additional instance where employers may be charged for poor performance. Specifically, where an employer fails to achieve a performance level of 75% in target for the provision of early leaver and retirement information, an additional charge may be levied on an annual basis at the Fund's discretion. The Fund recognised that performance for The City of Edinburgh Council had been influenced by mitigating circumstances and noted some improvement with East and West Councils. To date no charges for poor performance have been levied as the Fund considered this to be punitive and detrimental to the ongoing collaborative relationship.

4.6 Fund officers have continued to meet with employers, particularly new contacts, to ensure that the requirements set out in the PAS are understood. Training sessions with payroll and HR staff have also been held. Although information on performance is discussed with regular contacts, it is recognised that in some cases, where employer performance continues to be poor, escalation processes set out in Section 8.2 of the PAS will be followed. As in previous years, senior officers from the Fund will be holding annual meetings with large employers and these meetings will include discussion of the performance to highlight the key areas where improvement is required.

Monthly Contribution (Data) Return - Submissions

4.7 During 2021/22 an average of 95.4% of monthly submissions were provided through the employer portal by the PAS target of 19th of following month. This was an increase of 1.9% from 2020/21. The average for the first half of 2022/23 is 98.0%.

4.8 It was previously reported that the Fund was still having to devote a significant monthly resource to work with The City of Edinburgh Council to manually correct submitted data. There has been a change of resource at The City of Edinburgh Council which has reduced although not eliminated this resource. The Fund continues working with the Council to reduce this further.

Annual Benefit Statement 2022 – data returns from employers

4.9 The PAS stipulates that failure by an employer to provide the Fund with a year-end return by 19th April each year shall incur a £200 initial fee plus 5p per active member per working day from 20th April to date return is received. By the deadline 98.5% of employers, all but one, had submitted year-end financial data. The City of Edinburgh Council experienced an issue which meant their submission was made the following day on the 20th April.

4.10 Although this year the target of 100% was not met the Fund will not levy a cost recovery charge on any employer for late submission of the year-end return. The Fund was satisfied that this was concluded by 20 April 2022.

4.11 During the pre-production data cleanse for annual benefit statement 625 data issues were resolved with 306 requiring to be queried with the employers, 0.85% of active membership. Previously it was reported that The City of Edinburgh Council had 123 outstanding queries from the previous year which have since been resolved.

4.12 54,691 annual benefit statements (100% of member records) were produced and published to the member online service by the statutory deadline of 31 August 2022, of which 20,114 were for deferred members. For 1,207 deferred members the Fund did not hold a current address and had been unable to send newsletters to these members. 4.13 details the Funds ongoing effort to trace these members. The Fund, for the first time sent communication by email to 31,507 active and deferred members. The Fund was able to record that the email open rate was 48%, which is above all industries standards. The fund was also able to record that in the last 6 months 14,380 active and deferred members records were accessed online.

Other data quality initiatives, including mortality screening and tracing

4.13 To prevent fraud and overpayments of pensions, the Fund takes part in the National Fraud Initiative. The 2022/23 exercise is due to commence, and data will be extracted for analysis shortly. The Fund utilises the “Tell Us Once” central and local government death notification service and procured services to trace “lost” members and to provide mortality validation.

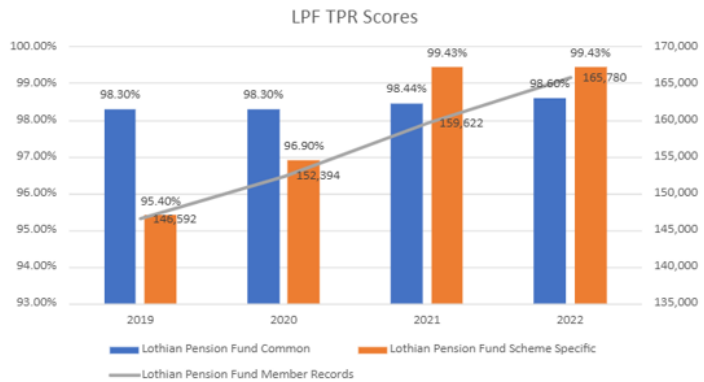
4.14 The Fund continues to carry out regular mortality and tracing on deferred and pensioner members using several external sources. 511 suspended pensions have been resolved since November 2021. The Fund also introduced the use of biometric authentication for proof of life for overseas pensioners. The Fund conducted a bulk tracing of "lost" members as well as utilising an online service to investigate by individual case level throughout the year. In September 2022 the number of records with a "gone away" address was 1,985 down by 137 from the previous year.

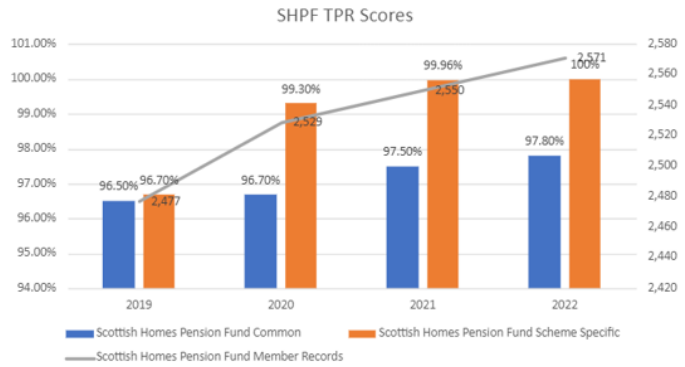
4.15 The Fund annually participates in "Club Vita" a specialist company proving longevity monitoring and experience analyses, for various data quality assurance checks. Data extract for 2022 analysis was submitted in September and results are awaited. The latest available annual report from December 2021 showed that our data quality continued to compare favourably with other funds. Confidentiality constraints do not permit more detailed disclosure. The Fund utilised the previous reports to undertake data cleansing for 2022 extract.

Management information and data quality monitoring

4.16 The Pensions Regulator (TPR) requires measurement of the presence of member data items important to the administration of a pension scheme. This has been split into two sets, "common data" which is applicable to all schemes and "conditional data" which is dependent on the specific scheme type and design.

4.17 The Fund utilised an analytical tool to carry out member record rectification work prior to taking the final position for the TPR 2022 annual scheme return. The member data extract was run on 23 September 2022, with effective date as of 31 March 2022. This means that the data cleansing of member records undertaken by the Fund prior to the issuing of Annual Benefit Statements is reflected in the assessment. This timeframe also aligns to the submission of the annual scheme return to TPR by 30 November.





4.18 Data Quality Reports are provided in full at Appendices 1-3

4.19 Rectification work to address the data issues identified by the reports is being progressed. Appendix 3 provides the Funds Data Quality Improvement Plan as required by The Pensions Regulator.

5. Financial impact

5.1 There are no direct financial implications arising from this report.

5.2 Data quality is fundamental to the effective and efficient administration by the Fund. Costs are met by the Fund's administration budgets (staff and third-party payments).

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. The forward planning of the Committees' agendas should facilitate improved risk management and governance for the pension funds.

6.3 There are no adverse sustainability impacts arising from this report.

7. Background reading/external references

7.1 None

8. Appendices

Appendix 1 – Scottish Homes Pension Fund – Data Quality Report 2022

Appendix 2 – Lothian Pension Fund – Data Quality Report 2022

Appendix 3 – Data Quality Improvement Plan 2022

Appendix 1

LOTHIAN
PENSION FUND

Local Government Pension Scheme

Data Quality Report

Scottish Homes Pension Fund

Data Quality Report

Diane Sinclair

Pensions Employer and Member Manager

Lothian Pension Fund

Version October 2022

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1. Summary

1.1. Introduction

1.2. Data Quality Analysis Tool

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3. Analysis of Data Results

3.1. Membership Records in Scope

3.2. Summary of Common Data Results

3.3. Summary of Scheme-specific Data Results

Appendix A – Common Data Test Conditions and Exclusions

Appendix B – Scheme-specific Data Test Conditions and Exclusions

1. Summary

1.1 Introduction

The Pensions Regulator (TPR) is the UK regulator of work-based pensions schemes. It works with trustees, employers, pension specialists and business advisors giving guidance on what is expected of them when running, overseeing or advising a public service pension scheme. To manage a scheme properly the scheme needs to make sure it has accurate, complete and up-to -date records as failure to do so means the scheme is at risk of not meeting their legal obligations.

Scottish Homes Pension Fund (the Fund), in the role of scheme administrator, is expected to regularly review the quality of the scheme data but must do so at least once a year. TPR have created data quality measures for common and scheme-specific data and scores are based on data being present and accurate. These data scores are submitted in each scheme return to TPR.

1.2 Data Quality Analysis Tool

Since 2018 the Fund have employed Heywood's data quality service to test and analyse the data to satisfy TPR measures. This was carried out once a year using a cut of the Funds August data. Heywood would supply the overall scores and data quality reports. In April 2021 the Fund procured Heywood's new analytical tool "Insights" which uses tableau business intelligence software. The data quality tests and dashboards are included in the tool. This has given the Fund greater control as it allows access to results daily, giving comfort that the rectification work being undertaken is correct.

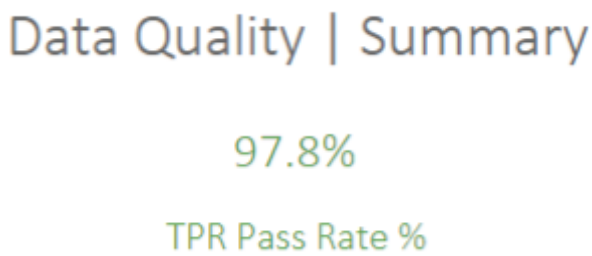
1.3 Benchmark

TPR requires schemes to have effective processes for maintaining data and continually improve the quality of the data held.

2. TPR Test Results

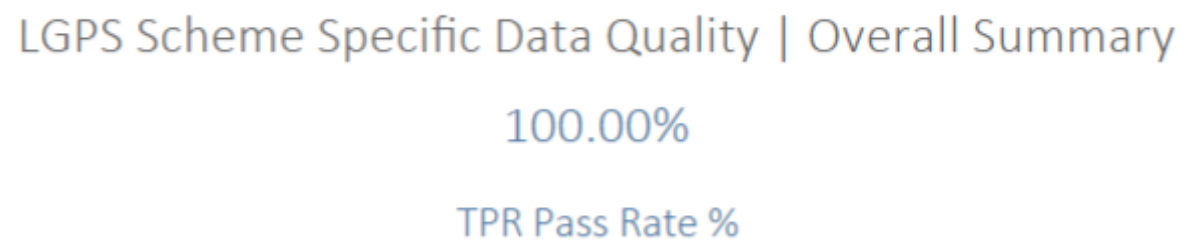
2.1 TPR Common Data Test Results

The percentage of member records that did not fail any of the tests deemed to be in the core list of TPR tests is **97.8%.** This is the figure that will be quoted on the scheme return to TPR.



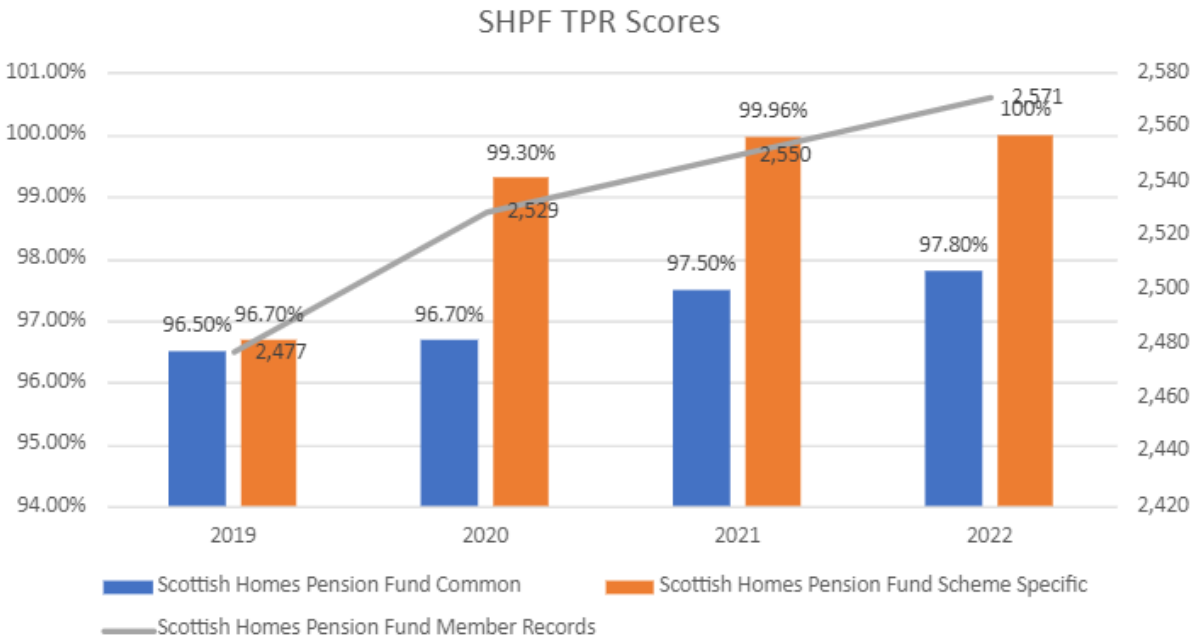
2.2 TPR Scheme-specific Data Test Results

The percentage of member records that did not fail any of the tests deemed to be in the core list of TPR tests is **100%**. This is the figure that will be quoted on the scheme return to TPR.



2.3 Historical Results

The common data score increased by 0.3% from last year's return whilst the scheme specific score increased by 0.04%. This is the first time a 100% was quoted in the scheme return to TPR.



3. Analysis of Data Results

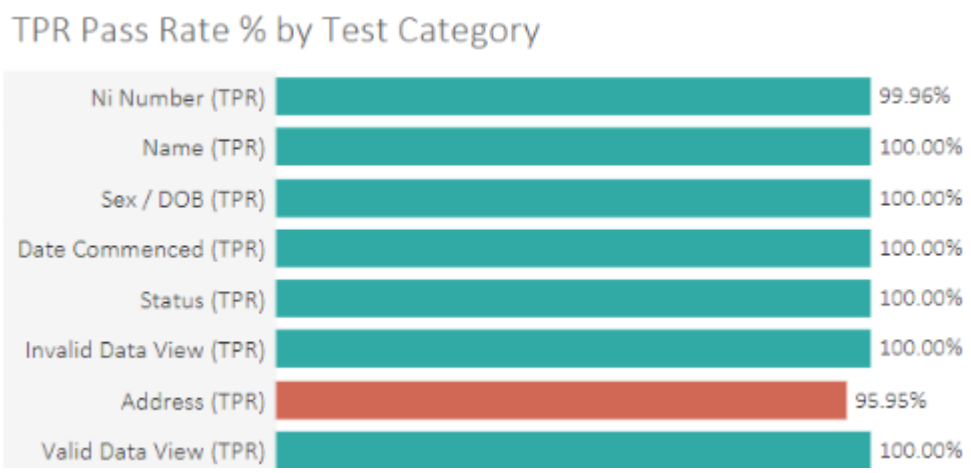
3.1 Membership Records in Scope

The 2022 tests were conducted on 2,571 member records an increase of 21 from 2022. Not all member records are required to be tested under each data category. Appendices A and B detail the test conditions and exclusions.

Last year's report stated that "tests had been conducted on 2,520 records a decrease of 9 on 2020". This was incorrect and should have read "tests had been conducted on 2,550 records an increase of 21 on 2020".

3.2 Summary of Common Data Results

The graph below indicates the Fund's performance for each data category extracted on 23rd September 2022.



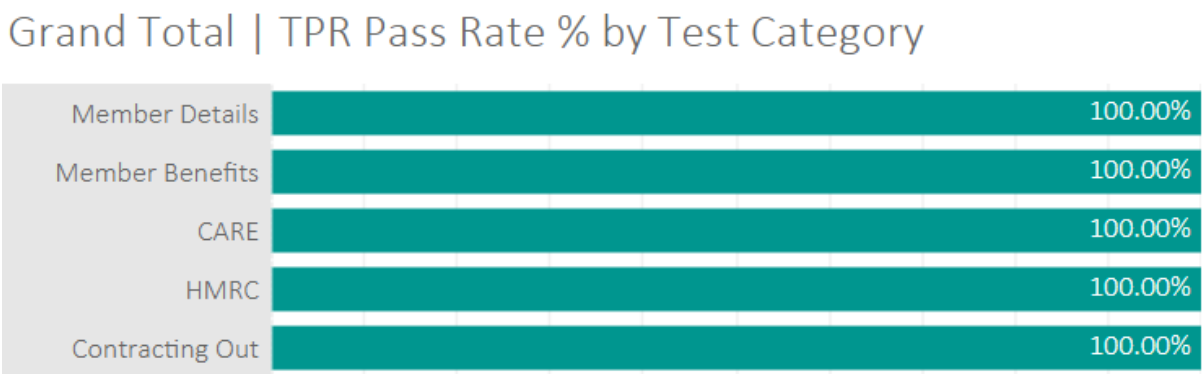
The score for the Address category is the only category not to achieve 99% or above. The following table shows the breakdown of the number of records that failed this category's tests.

Fail A: Address record does not exist	0
Fail B: Address record exists, but line 1 (ADD-LINE-1) is blank	0
Fail C: Gone Away (ADD-GONAWY) indicator is set	55
Fail D: Postcode is blank and address is not overseas	1
Fail E: Postcode format invalid and address is not overseas	0

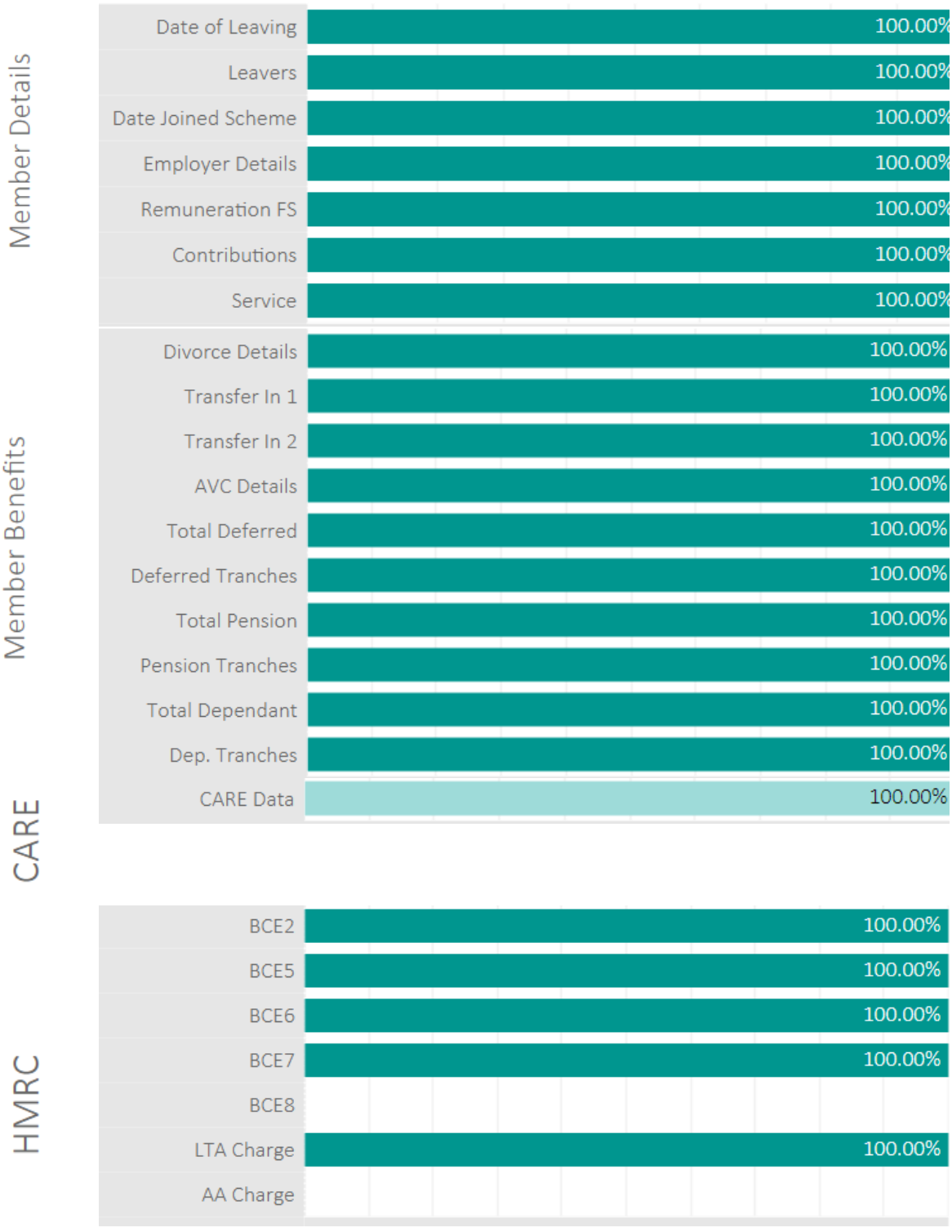
55 member records are recorded as "gone away". Details of the Fund's proposals to improve this test score is outlined in the Data Correction Plan.

3.3 Summary of Scheme-specific Data Results

The graph below indicates the Fund's performance for each data category extracted on 23rd September 2022.



The following tables shows the percentage of members without a failure for the previous categories' tests.



No Scottish Homes Pension Fund membership fell into scope for the BCE8 and AA Charge test criteria.

Contracting Out

Appendix A – Common Data Test Conditions and Exclusions

Category	Fail Condition	Test Condition	Members Excluded from Test	Included in TPR Tests?	Additional TPR Exclusions / Notes
Address	Fail A	Address record does not exist	Leavers (Status 3) and Deaths (Status 7)	Yes	None
	Fail B	Address record exists, but line 1 (ADD-LINE-1) is bla nk	Leavers (Status 3) and Deaths (Status 7)	Yes	None
	Fail C	Gone Away (ADD-GONAWY) indicator is set	Leavers (Status 3) and Deaths (Status 7)	Yes	None
	Fail D	If the address is not overseas, the Postcode (POSTC ODE) is blank	Leavers (Status 3) and Deaths (Status 7)	Yes	None
	Fail E	If the address is not overseas, the Postcode is not t he correct format (1st letter =Q, V or X, 2nd letter i s I, J or Z, 3rd, 4th or 5th character is not a space)	Leavers (Status 3) and Deaths (Status 7)	No	N/A
Date Commence d and NRD	Fail A	Date Joined fund (DJF / DJS) is blank	Status 6 or Status O or previous status 6	Yes	None
	Fail B	Date Joined Fund is earlier than Date of Birth plus 15 years	Status 6 or Status O or previous status 6	No	N/A
Name	Fail A	Surname (SURNAME) is blank	None	Yes	None
	Fail B	Forenames (FORENAMES) is blank	None	Yes	None
	Fail C	Initials (INITS) is blank	None	No	N/A

Name	Fail A	Surname (SURNAME) is blank	None	Yes	None
	Fail B	Forenames (FORENAMES) is blank	None	Yes	None
	Fail C	Initials (INITS) is blank	None	No	N/A
NI Number	Fail A	NI Number (NI-NUMBER) is blank	None	Yes	None
	Fail B	NI number is temporary (commences TN)	Child pension members (DEPND-TYPE = 'C'),	Yes	Current status 3 (no liability) and 7 (death) members excluded
	Fail C	NI number does not adhere to standard (Neither of the first two letters can be D, F, I, Q, U or V. The second letter cannot be O. Prefixes BG, GB, KN, NK, NT, TN (checked in fail B) and ZZ are not used. Suffix must be A, B, C or D. Characters 3-8 must be numbers)	None	No	N/A
Sex and Date of Birth	Fail A	Sex (SEX) is blank	None	Yes	None
	Fail B	Sex is not Male or Female	None	Yes	None
	Fail C	Date of Birth (DOB) is blank	None	Yes	None
	Fail D	Date of Birth is earlier than or equal to 01/01/1900	Leavers (Status 3) and Deaths (Status 7)	Yes	None
Status	Fail A	Status (STATUSKEYF) is blank	None	Yes	None
	Fail B	Status is not 1-9, T or O	None	Yes	None
	Fail C	Status on member summary (STATUSKEYF) does not match that on basic details (STATUS[1])	None	No	N/A

Status and Invalid Data View	Fail A	Exit details should not be present unless status is 3, 7 or 9 or a previous status is 9 and the current status is 1, 2, 4, 5 or T	As per Test Condition	No	N/A
	Fail B	Deferred details should not be present unless status is 4 or a previous status is 4 and the current status is 1, 2, 3, 5, 7 or T	As per Test Condition	No	N/A
	Fail C	Pension details should not be present unless status is 5 or T or a previous status is 5 or T and the current status is 1, 2, 3, 4 or 7	As per Test Condition	No	N/A
	Fail D	Dependant details should not be present unless status is 6 or a previous status is 6 and the current status is 3 or 7	As per Test Condition	No	N/A
Status and Valid Data View	Fail A	Deferreds who do not have deferred details data view	All but status 4	No	N/A
	Fail B	Pensioners who do not have pension details data view	All but status 5 and T	No	N/A
	Fail C	Dependant Pensioners who do not have dependant details data view	All but status 6	No	N/A
	Fail D	Leavers from active or deferred who do not have exit details data view	All but status 7 or 9, with a previous status of 1,2 or 4	No	N/A
	Fail E	Death from pensioner status does not have a relevant date pension ceased	All but Status 7 with a previous status of 5 or T	No	N/A
	Fail F	Death from dependant pensioner status does not have a relevant date pension ceased	All but Status 7 with a previous status of 6	No	N/A

Appendix B – Scheme-specific Data Test Conditions and Exclusions

Category	Sub Category	Sub Category Eligibility	Fail Condition	Test Condition	Members Excluded from Test	Included in TPR Tests?	Additional TPR Exclusions / Notes
CARE	CARE Data	Current status is 1 or status is 2/4/5/9/A with date left is after the end of Final Salary, with a date joined fund prior to current CARE year start. (Day after last posting date). Member is not a pension credit member (CLASS = 'PC') or a England /Wales site councillor member (CLASS = 'CM')	Fail A	CARE service member has no main CARE tranche (CARE-BNCDE = 'LGPSMAIN' or 'LGPS5050')	member employments with no service (DJF to DATE-LEFT/today or service history line spanning the period) between end of final salary and the last scheme posting date	No	N/A
			Fail B	Member has a valid CARE list entry (for a valid tranche code) ending on each 31March between Date Joined (or Care revaluation start or last rehire date (where status 4/9 exists with subsequent status 1) if later) and the current posting date (or date left if sooner)	members whose date left (DATE-LEFT) was prior to the first CARE revaluation date, or date joined (DJF) was after the last scheme posting date.	Yes	None
			Fail C	For each contribution entry during CARE accrual dated 31/03/yyyy (within the Fail B period above) with an amount over zero, there is a corresponding 31/03/yyyy period ending entry on the CARE benefit list for a valid tranche code with a salary amount over zero.	N/A	No	N/A
Contracting Out	Date Contracted Out	Current Status is 1,2,4,5 or T, Member is not a pension credit member (employment type 'PC' excluded), and member does not have a reduced NI indicator (RED-NI) of X,Y or N	Fail A	Date contracted out SSPA75 is invalid or blank and DJF is prior to 6/4/16	DJF after 05/04/2016	Yes	None
			Fail B	Date contracted out SSPA75 is valid (not blank or on or before 01/01/1900) and prior to 06/04/1978	N/A	Yes	None
			Fail C	Date contracted out SSPA75 is later than 05/04/2016	N/A	Yes	None
	NI Contributions/ Earnings History	Current Status is 4 or 5, with date contracted out between 6/4/78 and 5/4/97. Member is not a pension credit member (employment type 'PC' excluded), and member does not have a reduced NI indicator (RED-NI) of X,Y or N, and NI Table (NI-TABLE) code is not 'E'	Fail A	A Status 4 member is missing Date Left Active Service (DATE-LEFT) or a Status 5 member is missing both Date Left Active Service and Date of Retirement (STATUS-DATE[1])	Null	Yes	None
			Fail B	For one or more period end NI posting, the amount is missing or zero	N/A	No	N/A
			Fail C	There is not a separate NI Contribution entry for each April 5th between Date Contracted Out and 5/4/97 (or 5/4 after Date Ret if earlier)	N/A	No	N/A
			Fail D	GMP is not present on the NI details for status 1 and 2 and on GMP details for status 4, 5 & T	Null	No	N/A

			Fail E	Both Fail C and Fail D occurred	Null	Yes	None
	Post 88 GMP	Current Status is 4,5 or T, Date of leaving (DATE-LEFT) post 05/04/1988 and date of contracting out is prior to 06/04/1997, Member is not a pension credit member (employment type 'PC' excluded), and member does not have a reduced NI indicator (RED-NI) of X,Y or N	Fail A	Total GMP (GMP-T-DOL) at exit is missing or zero	Null	Yes	None
			Fail B	Post 88 GMP (GMP-T-ADOL) at exit is missing or zero	Null	Yes	None
			Fail C	Post 88 GMP at Exit (GMP-T-ADOL) is not divisible by 52	Null	Yes	None
	Pre 88 GMP	Current Status is 4,5 or T, Date of leaving (DATE-LEFT) post 06/04/1978 and date of contracting out is prior to 06/04/1988, Member is not a pension credit member (employment type 'PC' excluded), and member does not have a reduced NI indicator (RED-NI) of X,Y or N	Fail A	Total GMP (GMP-T-DOL) at exit is missing or zero	Null	Yes	None
			Fail B	Total GMP at exit (GMP-T-DOL) less post 88 GMP at exit (GMP-T-ADOL) is negative	Null	Yes	None
			Fail C	Total GMP at exit (GMP-T-DOL) less post 88 GMP at exit (GMP-T-ADOL) is not divisible by 52	Null	Yes	None
HMRC	AA Charge	Current Status is 1	Fail A	Employments' latest annual allowance PIP end date (AAL-PIPEND) is prior to the latest expected PIP end date	Employments that have a status 4 or 9 with date left prior to the last expected PIP end date, and a subsequent status 1 date after the expected PIP end date	Yes	None
			Fail B	Employment has a annual allowance entry where either the scheme pays indicator (AAL-SCHPAY) is set but the scheme pays debit amount (AAL-SPCSH1) is not greater than zero, or vice versa	N/A	No	N/A
	BCE2	Current status is 5 or T with status date after 05/04/2006	Fail A	Latest crystallisation date (CRYS-CRSYSD) entry is missing, is not a valid date or is earlier than date left	N/A	Yes	None

			Fail B	PLA amount (CRYS-PLA) is blank or zero	N/A	Yes	None
			Fail C	PLA % (CRYS-PLAPC) is blank or zero	N/A	No	N/A
	BCE5	Current status is 4 or T	Fail A	Member is aged over 75	N/A	No	N/A
	BCE6	Current status is 5 or T with status date after 05/04/2006, and aged under 75 at the status date	Fail A	Latest crystallisation date (CRYS-CRSYSD) entry is missing, is not a valid date or is earlier than date left	N/A	No	N/A
			Fail B	Member has retirement grant (PEN-TOT-AL > 0) but PCLS (CRYS-PCLS) is blank	Retirement Grant (PEN-TOT-AL) blank or zero	Yes	None
			Fail C	There is a serious ill health crystallisation date (CRYS-ILLD) but no amount (CRYS-ILLA), or vice versa	N/A	No	N/A
	BCE7	Current Status is 7, and current status date is post 05/04/2006 and within 5 years of status 5 date entry	Fail A	Death grant (CDTC-TOTLS) is blank or zero	N/A	No	N/A
			Fail B	Death grant (CDTC-TOTLS) is greater than zero, but the crystallisation amount (CDTC-CVAL) or percent (CDTC-CVALP) is blank or zero	Death grant (CDTC-TOTLS) greater than 0	No	N/A
	BCE8	Current status is 3 and date left (DATE-LEFT) is after 05/04/2006, and have a overseas transfer date present (CRYS-TFRD)	Fail A	overseas transfer date present (CRYS-TFRD) is blank or invalid, or earlier than date left	N/A	No	N/A
			Fail B	QROPS transfer amount (CRYS-TFRA) is blank or zero	N/A	No	N/A
			Fail C	DOB is not a valid date	N/A	No	N/A

			Fail D	Age at transfer dates (CRYS-TFRD) is 75 or greater	N/A	No	N/A
	LTA Charge	Current status is S or T with status date after 05/04/2006, and doesn't have either all enhanced protection or PCLS payment BCE data fields completed (i.e. both CRYS-BCEVD/ CRYS-BCEVA/ CRYS-BCEVI and CRYS-PPD / CRYS-PPA / CRYS-PPI are not all present)	Fail A	the total PLA used percentage (CRYS-TPPC) is greater than 100, but no LTA charge amount is completed (CRYS-LTACH and CRYS-LTA25 and CRYS-LTA55 are all blank or zero)	Total PLA used percentage (CRYS-TPPC) is less than or equal to 100	Yes	None
Member Benefits	AVC Details	Current Status is 1,2,4,5 or T with a AVC Details record present	Fail A	Contract start date (AVC-START) is blank or invalid (incl. on or before 01/01/1900)	N/A	Yes	Non current status 1,2 or 4
			Fail B	Contract end date (AVC-TE-DUE) is blank, invalid (incl. on or before 01/01/1900) or prior to the start date (AVC-START)	N/A	No	N/A
			Fail C	If the contract type (AVC-TYPE) is an added years type ("A", "B", "G", "L", "P", "R" or "S") but the added years amount (AVC-ADDY) is blank or zero	N/A	Yes	Non current status 1,2 or 4
			Fail D	If the contract type (AVC-TYPE) is an added pension ('H' or 'M') but the bought pension amount (AVC-P75T) is blank or zero, or greater than or equal to the scheme maximum	N/A	Yes	Non current status 1,2 or 4
	Divorce	Current Status is 1,2,4,5 or T with a Pension Sharing Record present	Fail A	Initial pension value (DVC-TOTINI) is missing	N/A	Yes	None
			Fail B	Calculation date (DVC-CALDTE) blank or before 01/12/2000	N/A	Yes	None
			Fail C	Payment date (DVC-PAYDTE) blank or before 01/12/2000	N/A	Yes	None
			Fail D	Pension credit amount (DVC-TVAMT) is missing or zero	N/A	Yes	None
			Fail E	Pension debit amount (DVC-CONAMT) is missing or zero	N/A	Yes	None

			Fail F	Percentage split (DVC-PCSPLT) is missing or zero or over 100.00	N/A	Yes	None
	Total Gross Dependant Pension	Current Status is 6	Fail A	Total initial pension value (DEP-TOT-IP) is missing or zero	N/A	Yes	None
			Fail B	Total initial pension value (DEP-TOT-IP) is present, but less than a nominal amount	N/A	No	N/A
			Fail C	Total current pension value (DEP-TOT-CP) is missing or zero	N/A	Yes	None
			Fail D	Total current pension value (DEP-TOT-CP) is present, but less than a nominal amount	N/A	No	N/A
			Fail E	Date for PI calculation (DEP-INC-DT) must be present	N/A	Yes	None
	Total Gross Pension	Current Status is 5 or T	Fail A	Total initial pension value (PEN-TOT-IP) is missing or zero	N/A	Yes	None
			Fail B	Total initial pension value (PEN-TOT-IP) is present, but less than a nominal amount	N/A	No	N/A
			Fail C	Total current pension value (PEN-TOT-CP) is missing or zero	N/A	Yes	None
			Fail D	Total current pension value (PEN-TOT-CP) is present, but less than a nominal amount	N/A	No	N/A
			Fail E	Date for PI calculation must be present and later than date joined fund (DJF)	N/A	Yes	None

Total Original Deferred Benefit	Current Status is 4	Fail A	Total initial pension value (DEF-TOT-IP) is missing or zero	N/A	Yes	None
		Fail B	Total initial pension value (DEF-TOT-IP) is present, but less than a nominal amount	N/A	No	N/A
		Fail C	Total current pension value (DEF-TOT-CP) is missing or zero	N/A	Yes	None
		Fail D	Total current pension value (DEF-TOT-CP) is present, but less than a nominal amount	N/A	No	N/A
		Fail E	PI Calculation date (DEF-INC-DT) is missing or invalid, or prior to date joined fund (DJF)	N/A	Yes	None
		Fail F	First entry of PI calculated date (DEF-PI-DT[1]) is missing is prior to the scheme's last PI date	employments with a date left following the scheme's last PI date	No	N/A
Tranches of Dependant Pension	Current Status is 6	Fail A	PEN pension type (DEP-TYPE) has a value (DEP-I-PEN) less than or equal to a nominal amount	N/A	Yes	None
		Fail B	Latest PI calculated date (PEN-PI-DT) is missing is prior to the scheme's last PI date	N/A	No	N/A
Tranches of Original Deferred Benefit	Current Status is 4	Fail A	A 'PEN' pension type (DEF-TYPE) does not exist or has an initial value less than a nominal amount.	N/A	Yes	None
		Fail B	Initial Pension (DEF-I-PEN) components for (DEF-TYPE) PEN + UPEN + TAPE does not equal total initial pension (DEF-TOT-IP)	N/A	No	N/A

		Fail C	an employment with service between accrual rate change and end of final salary with a missing or less than a nominal value (DEF-I-PEN) PN60 (DEF-TYPE) pension component.	Councillor members(CLASS = 'CM') (in England/Wales sites only) or Pension Credit (CLASS = 'PC'). Members whose service dates (either from DJF to DATE-LEFT) or on service history (with SERV-TYPE = 'L') do not span the period from accrual change to end of final salary (01/04/2008 to 31/03/2014 in England and Wales)	Yes	None
		Fail D	Member with post FS End service has no 'CARE' (DEF-TYPE) tranche or has one with a value (DEF-I-PEN) less than or equal to a nominal figure	Councillor members(CLASS = 'CM') (in England/Wales sites only) or Pension Credit (CLASS = 'PC'). Members whose date of leaving (DATE-LEFT) is pre final salary end date.	Yes	None
		Fail E	Member with 50/50 CARE tranche (CARE-BNCDE = 'LGPS5050' Or 'TVINLG50') has no corresponding pension component (DEF-TYPE = 'CP50') or one with a value (DEF-I-PEN) less than or equal to a nominal figure	N/A	No	N/A
		Fail F	Member with pre FS accrual change service has no 'RA' (DEF-TYPE) tranche or has one with a value (DEF-I-PEN) less than or equal to a nominal amount	Pension Credit (CLASS = 'PC') or members whose date of joining (DJF) and any service history line that starts (HIST-START) after the FS accrual rate change date	No	N/A
Tranches of Pension	Current Status is S or T	Fail A	PEN pension type (PEN-TYPE) has an initial value less than a nominal amount.	N/A	No	N/A
		Fail B	Member with service between 01/04/2008 (09 S&NI) and 31/03/2014 (15 S&NI) has no 'PN60' tranche or has one with a value less than a small figure	Councillor members(CLASS = 'CM') (in England/Wales sites only) or Pension Credit (CLASS = 'PC'). Or Members whose service history periods (with SERV-TYPE = 'L') do not span the period from accrual change to end of final salary (01/04/2008 to 31/03/2014 in England and Wales)	Yes	None
		Fail C	Member with post FS end service has no 'CARE' (PEN-TYPE) tranche or has one with a value (PEN-I-PEN) less than or equal to a nominal figure	Councillor members(CLASS = 'CM') (in England/Wales sites only) or Pension Credit (CLASS = 'PC'). Or members whose date of leaving (DATE-LEFT) is pre final salary end date.	Yes	None
		Fail D	Member with 50/50 CARE tranche (CARE-BNCDE = 'CARE5050' Or 'TVIN5050') has no corresponding pension component (PEN-TYPE = 'CP50') or one with a value (PEN-I-PEN) less than or equal to a nominal figure	N/A	Yes	None
		Fail E	First entry of PI calculated date (PEN-PI-DT[1]) is missing or is prior to the scheme's last PI date (or if the first component is 'GMP' and the PI calculated date is missing or prior to the 6th April prior to the last PI date)	employments with a date left following the scheme's last PI date or those with a an 'X' PI Marker (PEN-PI-MKR)	Yes	None
		Fail F	PEN or GMP is not the first pension type (PEN-TYPE)	N/A	No	N/A

	Transfer In Details 1	Current Status is 1,2,4,5 or T with a Transfer Details record present	Fail A	Transfer Received date (ADD-TV-DT) is blank or on or before 01/01/1900	N/A	Yes	Non current status 1,2 or 4
			Fail B	Transfer value (ADD-TV) is blank or zero	Interfund (ADD-TYPE = 'INTERFND') transfers received pre accrual change date for England and Wales funds (pre end of final salary accrual for Scotland and NI) that credited (ADD-BS-CR) less than 183 days service	Yes	Non current status 1,2 or 4
			Fail C	Back service credit (ADD-BS-CR) and retained pension (ADD-RETP) are both blank or zero.	N/A	No	N/A
			Fail D	Back service credit (ADD-BS-CR) is present, but service history does not have entry starting (HIST-START) on the same date and the transfer service start (ADD-FROM)	Transfers with no back service credit (ADD-BS-CR = 0 or blank)	No	N/A
			Fail E	Transfer type (ADD-TYPE) is not valid (one of "CLUB", "INTERFND", "NON CLUB", "PERSONAL", "RESTITUTIO" or "INTRAFND")	N/A	No	N/A
			Fail F	Date received (ADD-TV-DT) is blank, invalid (on or before 01/01/1900) or earlier than date joined fund (DJF)	N/A	No	N/A
	Transfer In Details 2	Current Status is 1,2,4,5 or T with a Transfer Details record present	Fail A	Previous scheme (ADD-PR-SCH) and previous employer (ADD-PR-EMP) are both blank	N/A	No	N/A
Member Details	Contributions	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Total Paid Including Interest (TCI-TOTAL) is blank or less than (or equal to) a small figure (default of £1.00) agreed with customer	Employment type (CLASS) is Councillor (CM) or Date Joined Fund (DJF) equal to or later than the last posting date	No	N/A
			Fail B	For status 1 members the latest cont date (CONT-DATE) prior to the last posting date and have a corresponding figure (SCH-CONT) (not 0)	Current status not '1' or DJF Date Joined Fund (DJF) equal to or later than the last posting date	No	N/A
	Date Joined Scheme	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Any of Date Joined Scheme (DJF), Date of Birth (DOB) and/or Date commenced current service (DCCPS) Joined Fund are either blank or earlier than or equal to 1/1/1900	N/A	Yes	None
			Fail B	Date Joined Fund (DJF) is earlier or equal to Date of Birth (DOB) plus 15 years	Null DATE-LEFT or DOB	No	N/A

Member Details	Date of Leaving	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Non-active member has blank or invalid date left (DATE-LEFT)	Status 1	Yes	None
			Fail B	Date joined fund (DJF) blank or on or before 01/01/1900	Status 1	Yes	None
			Fail C	Date joined fund (DJF) later than or equal to date left (DATE-LEFT)	Status 1, Fail A cases	Yes	None
			Fail D	Date Left (DATE-LEFT) present for an active member without a previous status 4 or 9	Status not 1 or has previous status 4 or 9 entry	No	N/A
	Employer Details	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Current employer (LOCATION) is blank	N/A	Yes	None
			Fail B	Date Joined employer (DT-JOIN-EM) is either blank or earlier than or equal to 1/1/1900	N/A	Yes	None
			Fail C	Date Joined employer (DT-JOIN-EM) must be earlier than date of birth (DOB) plus 15 years	Null DT-JOIN-EMP or DOB	No	N/A
			Fail D	Employment type (CLASS) is blank	N/A	No	N/A
	Leavers	Current Status is 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Date Left (DATE-LEFT) is either blank or is earlier than or equal to 1/1/1900	N/A	Yes	None
			Fail B	Date Joined Scheme (DJF) is either blank or is earlier than or equal to 1/1/1900	N/A	Yes	None
			Fail C	Date Left (DATE-LEFT) is earlier than Date Joined Scheme (DJF)	Null DATE-LEFT or DJF	No	N/A

Salary (Final Salary members)	Current Status is 1, 2, 4, 5, 9 or T with service start date (HIST-START) (or date joined fund (DJF) if no service history present) prior to the final salary accrual end date. and member is not pension credit member (CLASS <> 'PC')	Fail A	Blank or invalid latest Pensionable Remuneration Date (PEN-REM-DT)	Employment type (CLASS) is Councillor (CM)	Yes	Non current status 1,2 or 4
		Fail B	For non-active members, neither of the last two pensionable remuneration dates (PEN-REM-DT) equal the member's date of leaving (DATE-LEFT)	Current status (STATUS) is 1 ,2 or 9; or Employment type (CLASS) is Councillor (CM)	No	N/A
		Fail C	The latest Remuneration entry is on a valid date (PEN-REM-DT) but has no amount (PEN-REM)	N/A	No	N/A
		Fail D	Deferred with no, or less than (or equal to) a nominal, Final Pay (DEF-PENREM) value	Not current status 4	No	N/A
		Fail E	Pensioner with no, or less than (or equal to) a nominal, Final Pay (PEN-PS-REM) value	Not current status 5 or T	No	N/A
		Fail F	Active without a pensionable remuneration entry on or after the latest posting date	Not current status 1, Employment type (CLASS) is Councillor (CM)	No	N/A
Service	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	If DCCPS > DJF, and DJF < 31/03/2014 (15 S&NI)) then service history must be present	N/A	No	N/A

Appendix 2

LOTHIAN
PENSION FUND

Local Government Pension Scheme

Data Quality Report

Lothian Pension Fund

Data Quality Report

Diane Sinclair

Pensions Employer and Member Manager

Lothian Pension Fund

Version November 2022

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Appendix A – Common Data Test Conditions and Exclusions

Appendix B – Scheme-specific Data Test Conditions and Exclusions

1. Summary

1.1 Introduction

The Pensions Regulator (TPR) is the UK regulator of work-based pensions schemes. It works with trustees, employers, pension specialists and business advisors giving guidance on what is expected of them when running, overseeing or advising a public service pension scheme. To manage a scheme properly the scheme needs to make sure it has accurate, complete and up-to -date records as failure to do so means the scheme is at risk of not meeting their legal obligations.

Lothian Pension Fund (the Fund), in the role of scheme administrator, is expected to regularly review the quality of the scheme data but must do so at least once a year. TPR have created data quality measures for common and scheme-specific data and scores are based on data being present and accurate. These data scores are submitted in each scheme return to TPR.

1.2 Data Quality Analysis Tool

Since 2018 the Fund have employed Heywood's data quality service to test and analyse the data to satisfy TPR measures. This was carried out once a year using a cut of the Funds August data. Heywood would supply the overall scores and data quality reports. In April 2021 the Fund procured Heywood's new analytical tool "Insights" which uses tableau business intelligence software. The data quality tests and dashboards are included in the tool. This has given the Fund greater control as it allows access to results daily, giving comfort that the rectification work being undertaken is correct.

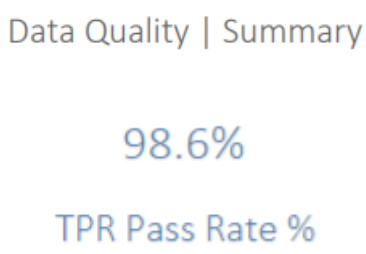
1.3 Benchmark

TPR requires schemes to have effective processes for maintaining data and continually improve the quality of the data held. The Fund has set targets for common and scheme-specific scores in excess of 95% in both instances.

2. TPR Test Results

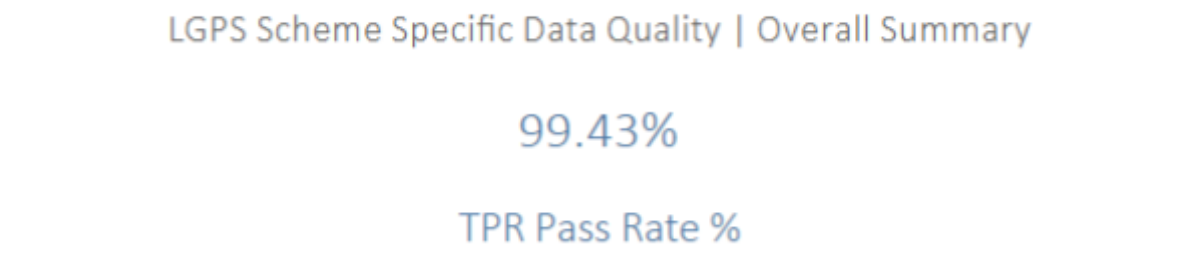
2.1 TPR Common Data Test Results

The percentage of member records that did not fail any of the tests deemed to be in the core list of TPR tests is **98.6%.** This is the figure that will be quoted on the scheme return to TPR.



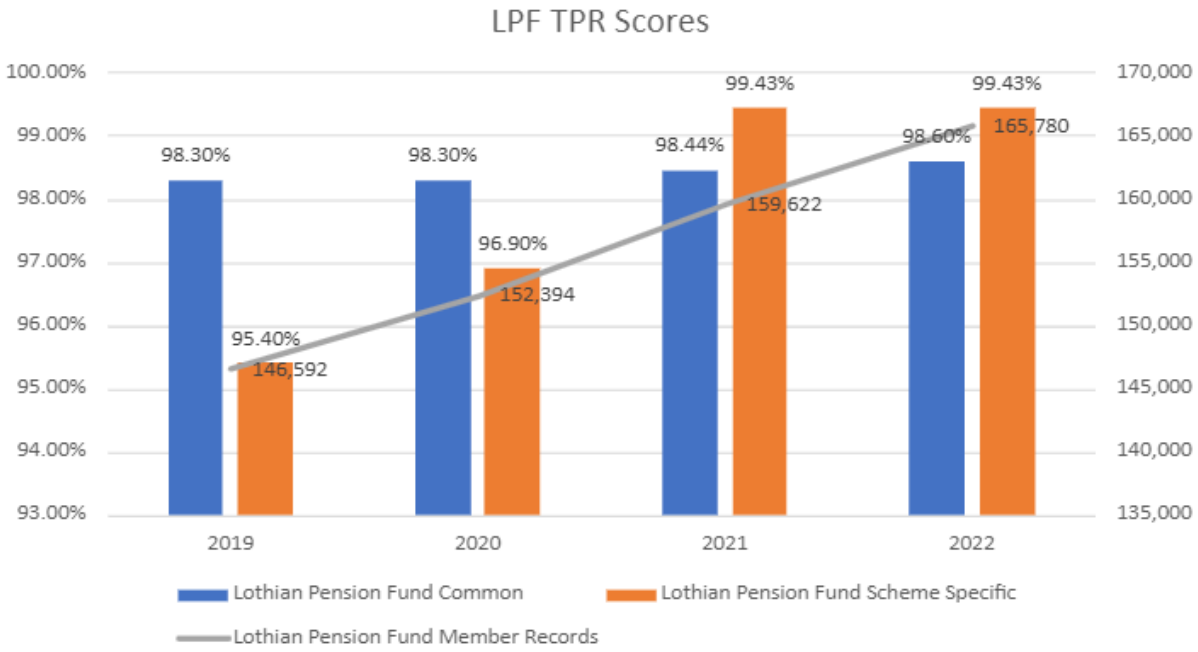
2.2 TPR Scheme-specific Data Test Results

The percentage of member records that did not fail any of the tests deemed to be in the core list of TPR tests is **99.43%**. This is the figure that will be quoted on the scheme return to TPR.



3.2 Historical Results

The common data score increased by 0.16% from last year's return whilst the scheme specific score was maintained.



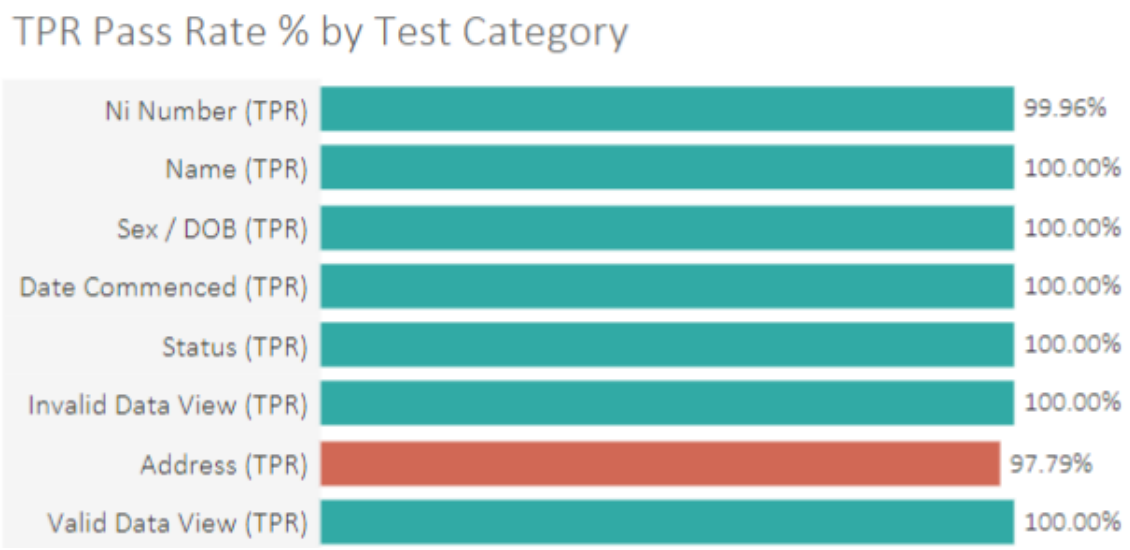
3. Analysis of Data Results

3.1 Membership Records in Scope

The 2021 tests were conducted on 165,780 member records an increase of 6,158 on 2021. Not all member records are required to be tested under each data category. Appendices A and B detail the test conditions and exclusions.

3.2 Summary of Common Data Results

The following graph indicates the Fund's performance for each data category extracted on 23rd September 2022.



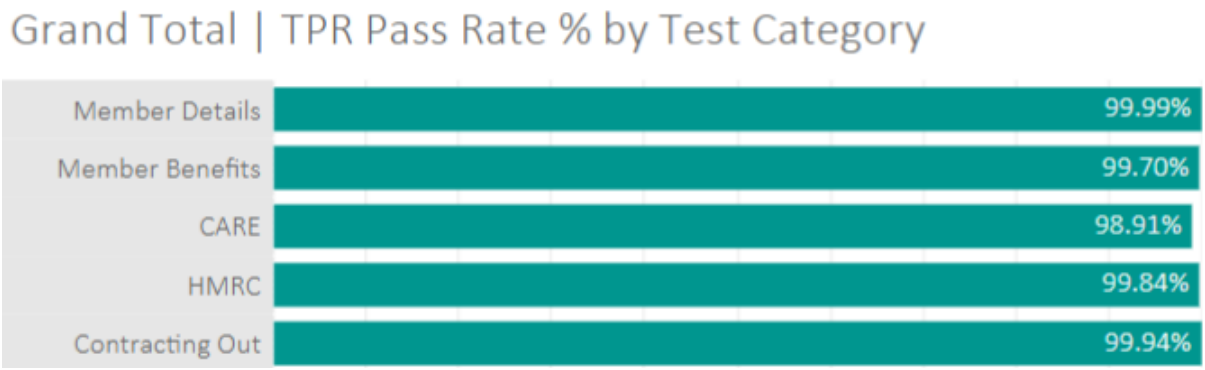
The score for the Address category is the only category not to achieve 99% or above. The following table shows the breakdown of the number of records that failed this category's tests.

Fail A: Address record does not exist	1
Fail B: Address record exists, but line 1 (ADD-LINE-1) is blank	7
Fail C: Gone Away (ADD-GONAWY) indicator is set	1,930
Fail D: Postcode is blank and address is not overseas	19

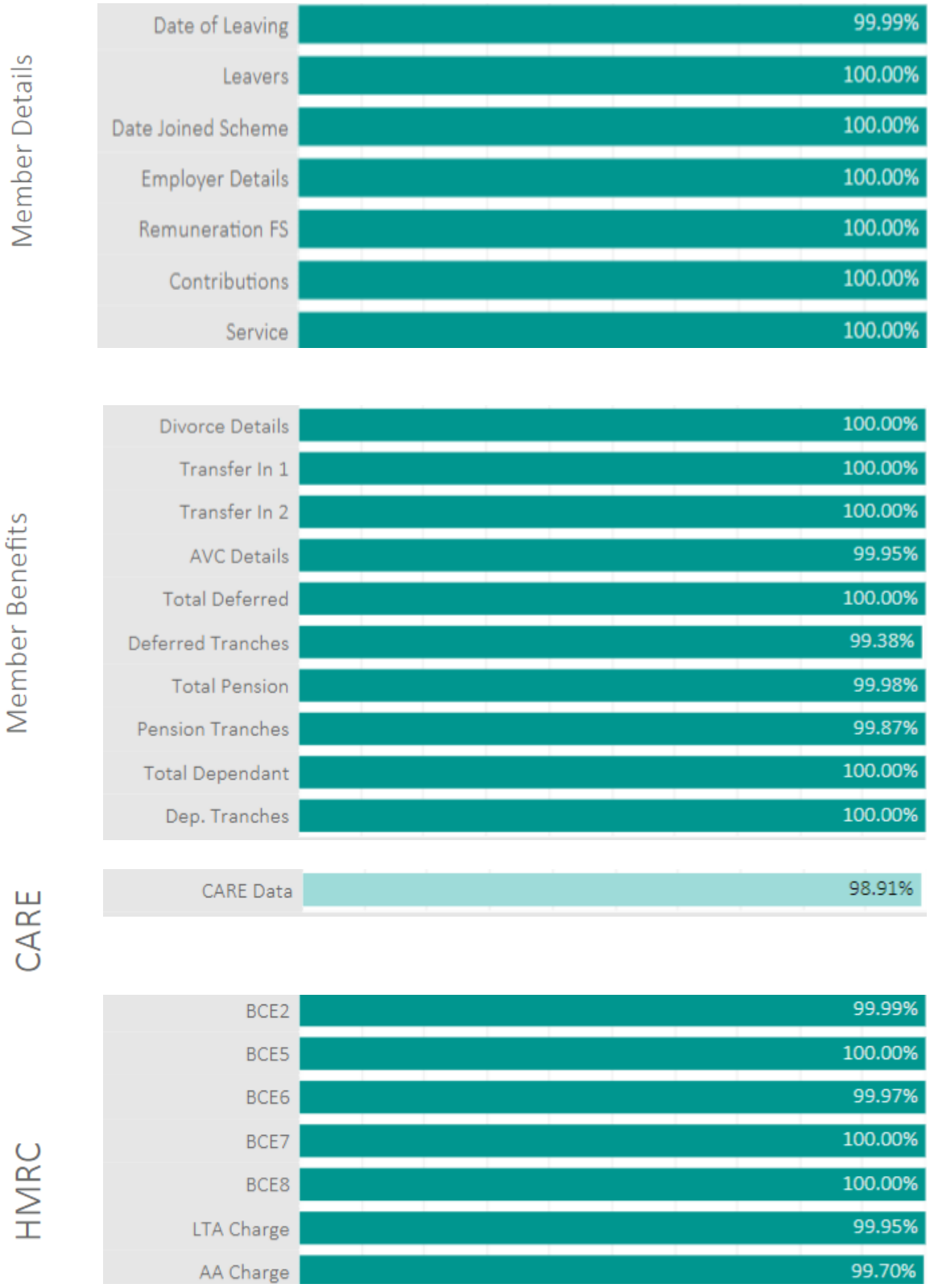
1,930 member records were recorded as "gone away" at the time of data extraction. Details of the Fund's proposals to improve this test score is outlined in the Data Correction Plan.

3.3 Summary of Scheme-specific Data Results

The graph below indicates the Fund's performance for each data category extracted on 23rd September 2022.



The following tables show the percentage of members without a failure for the above categories' tests.


Member Details
Date of Leaving 99.99%
Leavers 100.00%
Date Joined Scheme 100.00%
Employer Details 100.00%
Remuneration FS 100.00%
Contributions 100.00%
Service 100.00%
Member Benefits
Divorce Details 100.00%
Transfer In 1 100.00%
Transfer In 2 100.00%
AVC Details 99.95%
Total Deferred 100.00%
Deferred Tranches 99.38%
Total Pension 99.98%
Pension Tranches 99.87%
Total Dependant 100.00%
Dep. Tranches 100.00%
CARE
CARE Data 98.91%
HMRC
BCE2 99.99%
BCE5 100.00%
BCE6 99.97%
BCE7 100.00%
BCE8 100.00%
LTA Charge 99.95%
AA Charge 99.70%

Contracting Out

Appendix A – Common Data Test Conditions and Exclusions

Category	Fail Condition	Test Condition	Members Excluded from Test	Included in TPR Tests?	Additional TPR Exclusions / Notes
Address	Fail A	Address record does not exist	Leavers (Status 3) and Deaths (Status 7)	Yes	None
	Fail B	Address record exists, but line 1 (ADD-LINE-1) is bla nk	Leavers (Status 3) and Deaths (Status 7)	Yes	None
	Fail C	Gone Away (ADD-GONAWY) indicator is set	Leavers (Status 3) and Deaths (Status 7)	Yes	None
	Fail D	If the address is not overseas, the Postcode (POSTC ODE) is blank	Leavers (Status 3) and Deaths (Status 7)	Yes	None
	Fail E	If the address is not overseas, the Postcode is not t he correct format (1st letter =Q, V or X, 2nd letter i s I, J or Z, 3rd, 4th or 5th character is not a space)	Leavers (Status 3) and Deaths (Status 7)	No	N/A
Date Commence d and NRD	Fail A	Date Joined fund (DJF / DJS) is blank	Status 6 or Status O or previous status 6	Yes	None
	Fail B	Date Joined Fund is earlier than Date of Birth plus 15 years	Status 6 or Status O or previous status 6	No	N/A
Name	Fail A	Surname (SURNAME) is blank	None	Yes	None
	Fail B	Forenames (FORENAMES) is blank	None	Yes	None
	Fail C	Initials (INITS) is blank	None	No	N/A

Name	Fail A	Surname (SURNAME) is blank	None	Yes	None
	Fail B	Forenames (FORENAMES) is blank	None	Yes	None
	Fail C	Initials (INITS) is blank	None	No	N/A
NI Number	Fail A	NI Number (NI-NUMBER) is blank	None	Yes	None
	Fail B	NI number is temporary (commences TN)	Child pension members (DEPND-TYPE = 'C'),	Yes	Current status 3 (no liability) and 7 (death) members excluded
	Fail C	NI number does not adhere to standard (Neither of the first two letters can be D, F, I, Q, U or V. The second letter cannot be O. Prefixes BG, GB, KN, NK, NT, TN (checked in fail B) and ZZ are not used. Suffix must be A, B, C or D. Characters 3-8 must be numbers)	None	No	N/A
Sex and Date of Birth	Fail A	Sex (SEX) is blank	None	Yes	None
	Fail B	Sex is not Male or Female	None	Yes	None
	Fail C	Date of Birth (DOB) is blank	None	Yes	None
	Fail D	Date of Birth is earlier than or equal to 01/01/1900	Leavers (Status 3) and Deaths (Status 7)	Yes	None
Status	Fail A	Status (STATUSKEYF) is blank	None	Yes	None
	Fail B	Status is not 1-9, T or O	None	Yes	None
	Fail C	Status on member summary (STATUSKEYF) does not match that on basic details (STATUS[1])	None	No	N/A

Status and Invalid Data View	Fail A	Exit details should not be present unless status is 3, 7 or 9 or a previous status is 9 and the current status is 1, 2, 4, 5 or T	As per Test Condition	No	N/A
	Fail B	Deferred details should not be present unless status is 4 or a previous status is 4 and the current status is 1, 2, 3, 5, 7 or T	As per Test Condition	No	N/A
	Fail C	Pension details should not be present unless status is 5 or T or a previous status is 5 or T and the current status is 1, 2, 3, 4 or 7	As per Test Condition	No	N/A
	Fail D	Dependant details should not be present unless status is 6 or a previous status is 6 and the current status is 3 or 7	As per Test Condition	No	N/A
Status and Valid Data View	Fail A	Deferreds who do not have deferred details data view	All but status 4	No	N/A
	Fail B	Pensioners who do not have pension details data view	All but status 5 and T	No	N/A
	Fail C	Dependant Pensioners who do not have dependant details data view	All but status 6	No	N/A
	Fail D	Leavers from active or deferred who do not have exit details data view	All but status 7 or 9, with a previous status of 1,2 or 4	No	N/A
	Fail E	Death from pensioner status does not have a relevant date pension ceased	All but Status 7 with a previous status of 5 or T	No	N/A
	Fail F	Death from dependant pensioner status does not have a relevant date pension ceased	All but Status 7 with a previous status of 6	No	N/A

Appendix B – Scheme-specific Data Test Conditions and Exclusions

Category	Sub Category	Sub Category Eligibility	Fail Condition	Test Condition	Members Excluded from Test	Included in TPR Tests?	Additional TPR Exclusions / Notes
CARE	CARE Data	Current status is 1 or status is 2/4/5/9/A with date left is after the end of Final Salary, with a date joined fund prior to current CARE year start. (Day after last posting date). Member is not a pension credit member (CLASS = 'PC') or a England /Wales site councillor member (CLASS = 'CM')	Fail A	CARE service member has no main CARE tranche (CARE-BNCDE = 'LGPSMAIN' or 'LGPS5050')	member employments with no service (DJF to DATE-LEFT/today or service history line spanning the period) between end of final salary and the last scheme posting date	No	N/A
			Fail B	Member has a valid CARE list entry (for a valid tranche code) ending on each 31March between Date Joined (or Care revaluation start or last rehire date (where status 4/9 exists with subsequent status 1) if later) and the current posting date (or date left if sooner)	members whose date left (DATE-LEFT) was prior to the first CARE revaluation date, or date joined (DJF) was after the last scheme posting date.	Yes	None
			Fail C	For each contribution entry during CARE accrual dated 31/03/yyyy (within the Fail B period above) with an amount over zero, there is a corresponding 31/03/yyyy period ending entry on the CARE benefit list for a valid tranche code with a salary amount over zero.	N/A	No	N/A
Contracting Out	Date Contracted Out	Current Status is 1,2,4,5 or T, Member is not a pension credit member (employment type 'PC' excluded), and member does not have a reduced NI indicator (RED-NI) of X,Y or N	Fail A	Date contracted out SSPA75 is invalid or blank and DJF is prior to 6/4/16	DJF after 05/04/2016	Yes	None
			Fail B	Date contracted out SSPA75 is valid (not blank or on or before 01/01/1900) and prior to 06/04/1978	N/A	Yes	None
			Fail C	Date contracted out SSPA75 is later than 05/04/2016	N/A	Yes	None
	NI Contributions/ Earnings History	Current Status is 4 or 5, with date contracted out between 6/4/78 and 5/4/97. Member is not a pension credit member (employment type 'PC' excluded), and member does not have a reduced NI indicator (RED-NI) of X,Y or N, and NI Table (NI-TABLE) code is not 'E'	Fail A	A Status 4 member is missing Date Left Active Service (DATE-LEFT) or a Status 5 member is missing both Date Left Active Service and Date of Retirement (STATUS-DATE(1))	Null	Yes	None
			Fail B	For one or more period end NI posting, the amount is missing or zero	N/A	No	N/A
			Fail C	There is not a separate NI Contribution entry for each April 5th between Date Contracted Out and 5/4/97 (or 5/4 after Date Ret if earlier)	N/A	No	N/A
			Fail D	GMP is not present on the NI details for status 1 and 2 and on GMP details for status 4, 5 & T	Null	No	N/A

			Fail E	Both Fail C and Fail D occurred	Null	Yes	None
	Post 88 GMP	Current Status is 4,5 or T, Date of leaving (DATE-LEFT) post 05/04/1988 and date of contracting out is prior to 06/04/1997, Member is not a pension credit member (employment type 'PC' excluded), and member does not have a reduced NI indicator (RED-NI) of X,Y or N	Fail A	Total GMP (GMP-T-DOL) at exit is missing or zero	Null	Yes	None
			Fail B	Post 88 GMP (GMP-T-ADOL) at exit is missing or zero	Null	Yes	None
			Fail C	Post 88 GMP at Exit (GMP-T-ADOL) is not divisible by 52	Null	Yes	None
	Pre 88 GMP	Current Status is 4,5 or T, Date of leaving (DATE-LEFT) post 06/04/1978 and date of contracting out is prior to 06/04/1988, Member is not a pension credit member (employment type 'PC' excluded), and member does not have a reduced NI indicator (RED-NI) of X,Y or N	Fail A	Total GMP (GMP-T-DOL) at exit is missing or zero	Null	Yes	None
			Fail B	Total GMP at exit (GMP-T-DOL) less post 88 GMP at exit (GMP-T-ADOL) is negative	Null	Yes	None
			Fail C	Total GMP at exit (GMP-T-DOL) less post 88 GMP at exit (GMP-T-ADOL) is not divisible by 52	Null	Yes	None
HMRC	AA Charge	Current Status is 1	Fail A	Employments' latest annual allowance PIP end date (AAL-PIPEND) is prior to the latest expected PIP end date	Employments that have a status 4 or 9 with date left prior to the last expected PIP end date, and a subsequent status 1 date after the expected PIP end date	Yes	None
			Fail B	Employment has a annual allowance entry where either the scheme pays indicator (AAL-SCHPAY) is set but the scheme pays debit amount (AAL-SPCSH1) is not greater than zero, or vice versa	N/A	No	N/A
	BCE2	Current status is 5 or T with status date after 05/04/2006	Fail A	Latest crystallisation date (CRYS-CRSYSD) entry is missing, is not a valid date or is earlier than date left	N/A	Yes	None

			Fail B	PLA amount (CRYS-PLA) is blank or zero	N/A	Yes	None
			Fail C	PLA % (CRYS-PLAPC) is blank or zero	N/A	No	N/A
	BCE5	Current status is 4 or T	Fail A	Member is aged over 75	N/A	No	N/A
	BCE6	Current status is 5 or T with status date after 05/04/2006, and aged under 75 at the status date	Fail A	Latest crystallisation date (CRYS-CRSYSD) entry is missing, is not a valid date or is earlier than date left	N/A	No	N/A
			Fail B	Member has retirement grant (PEN-TOT-AL > 0) but PCLS (CRYS-PCLS) is blank	Retirement Grant (PEN-TOT-AL) blank or zero	Yes	None
			Fail C	There is a serious ill health crystallisation date (CRYS-ILLD) but no amount (CRYS-ILLA), or vice versa	N/A	No	N/A
	BCE7	Current Status is 7, and current status date is post 05/04/2006 and within 5 years of status 5 date entry	Fail A	Death grant (CDTC-TOTLS) is blank or zero	N/A	No	N/A
			Fail B	Death grant (CDTC-TOTLS) is greater than zero, but the crystallisation amount (CDTC-CVAL) or percent (CDTC-CVALP) is blank or zero	Death grant (CDTC-TOTLS) greater than 0	No	N/A
	BCE8	Current status is 3 and date left (DATE-LEFT) is after 05/04/2006, and have a overseas transfer date present (CRYS-TFRD)	Fail A	overseas transfer date present (CRYS-TFRD) is blank or invalid, or earlier than date left	N/A	No	N/A
			Fail B	QROPS transfer amount (CRYS-TFRA) is blank or zero	N/A	No	N/A
			Fail C	DOB is not a valid date	N/A	No	N/A

			Fail D	Age at transfer dates (CRYS-TFRD) is 75 or greater	N/A	No	N/A
	LTA Charge	Current status is S or T with status date after 05/04/2006, and doesn't have either all enhanced protection or PCLS payment BCE data fields completed (i.e. both CRYS-BCEVD/ CRYS-BCEVA/ CRYS-BCEVI and CRYS-PPD / CRYS-PPA / CRYS-PPI are not all present)	Fail A	the total PLA used percentage (CRYS-TPPC) is greater than 100, but no LTA charge amount is completed (CRYS-LTACH and CRYS-LTA25 and CRYS-LTA55 are all blank or zero)	Total PLA used percentage (CRYS-TPPC) is less than or equal to 100	Yes	None
Member Benefits	AVC Details	Current Status is 1,2,4,5 or T with a AVC Details record present	Fail A	Contract start date (AVC-START) is blank or invalid (incl. on or before 01/01/1900)	N/A	Yes	Non current status 1,2 or 4
			Fail B	Contract end date (AVC-TE-DUE) is blank, invalid (incl. on or before 01/01/1900) or prior to the start date (AVC-START)	N/A	No	N/A
			Fail C	If the contract type (AVC-TYPE) is an added years type ("A", "B", "G", "L", "P", "R" or "S") but the added years amount (AVC-ADDY) is blank or zero	N/A	Yes	Non current status 1,2 or 4
			Fail D	If the contract type (AVC-TYPE) is an added pension ('H' or 'M') but the bought pension amount (AVC-P75T) is blank or zero, or greater than or equal to the scheme maximum	N/A	Yes	Non current status 1,2 or 4
	Divorce	Current Status is 1,2,4,5 or T with a Pension Sharing Record present	Fail A	Initial pension value (DVC-TOTINI) is missing	N/A	Yes	None
			Fail B	Calculation date (DVC-CALDTE) blank or before 01/12/2000	N/A	Yes	None
			Fail C	Payment date (DVC-PAYDTE) blank or before 01/12/2000	N/A	Yes	None
			Fail D	Pension credit amount (DVC-TVAMT) is missing or zero	N/A	Yes	None
			Fail E	Pension debit amount (DVC-CONAMT) is missing or zero	N/A	Yes	None

			Fail F	Percentage split (DVC-PCSPLT) is missing or zero or over 100.00	N/A	Yes	None
	Total Gross Dependant Pension	Current Status is 6	Fail A	Total initial pension value (DEP-TOT-IP) is missing or zero	N/A	Yes	None
			Fail B	Total initial pension value (DEP-TOT-IP) is present, but less than a nominal amount	N/A	No	N/A
			Fail C	Total current pension value (DEP-TOT-CP) is missing or zero	N/A	Yes	None
			Fail D	Total current pension value (DEP-TOT-CP) is present, but less than a nominal amount	N/A	No	N/A
			Fail E	Date for PI calculation (DEP-INC-DT) must be present	N/A	Yes	None
	Total Gross Pension	Current Status is 5 or T	Fail A	Total initial pension value (PEN-TOT-IP) is missing or zero	N/A	Yes	None
			Fail B	Total initial pension value (PEN-TOT-IP) is present, but less than a nominal amount	N/A	No	N/A
			Fail C	Total current pension value (PEN-TOT-CP) is missing or zero	N/A	Yes	None
			Fail D	Total current pension value (PEN-TOT-CP) is present, but less than a nominal amount	N/A	No	N/A
			Fail E	Date for PI calculation must be present and later than date joined fund (DJF)	N/A	Yes	None

Total Original Deferred Benefit	Current Status is 4	Fail A	Total initial pension value (DEF-TOT-IP) is missing or zero	N/A	Yes	None
		Fail B	Total initial pension value (DEF-TOT-IP) is present, but less than a nominal amount	N/A	No	N/A
		Fail C	Total current pension value (DEF-TOT-CP) is missing or zero	N/A	Yes	None
		Fail D	Total current pension value (DEF-TOT-CP) is present, but less than a nominal amount	N/A	No	N/A
		Fail E	PI Calculation date (DEF-INC-DT) is missing or invalid, or prior to date joined fund (DJF)	N/A	Yes	None
		Fail F	First entry of PI calculated date (DEF-PI-DT[1]) is missing is prior to the scheme's last PI date	employments with a date left following the scheme's last PI date	No	N/A
Tranches of Dependant Pension	Current Status is 6	Fail A	PEN pension type (DEP-TYPE) has a value (DEP-I-PEN) less than or equal to a nominal amount	N/A	Yes	None
		Fail B	Latest PI calculated date (PEN-PI-DT) is missing is prior to the scheme's last PI date	N/A	No	N/A
Tranches of Original Deferred Benefit	Current Status is 4	Fail A	A 'PEN' pension type (DEF-TYPE) does not exist or has an initial value less than a nominal amount.	N/A	Yes	None
		Fail B	Initial Pension (DEF-I-PEN) components for (DEF-TYPE) PEN + UPEN + TAPE does not equal total initial pension (DEF-TOT-IP)	N/A	No	N/A

		Fail C	an employment with service between accrual rate change and end of final salary with a missing or less than a nominal value (DEF-I-PEN) PN60 (DEF-TYPE) pension component.	Councillor members(CLASS = 'CM') (in England/Wales sites only) or Pension Credit (CLASS = 'PC'). Members whose service dates (either from DJF to DATE-LEFT) or on service history (with SERV-TYPE = 'L') do not span the period from accrual change to end of final salary (01/04/2008 to 31/03/2014 in England and Wales)	Yes	None
		Fail D	Member with post FS End service has no 'CARE' (DEF-TYPE) tranche or has one with a value (DEF-I-PEN) less than or equal to a nominal figure	Councillor members(CLASS = 'CM') (in England/Wales sites only) or Pension Credit (CLASS = 'PC'). Members whose date of leaving (DATE-LEFT) is pre final salary end date.	Yes	None
		Fail E	Member with 50/50 CARE tranche (CARE-BNCDE = 'LGPS5050' Or 'TVINLG50') has no corresponding pension component (DEF-TYPE = 'CP50') or one with a value (DEF-I-PEN) less than or equal to a nominal figure	N/A	No	N/A
		Fail F	Member with pre FS accrual change service has no 'RA' (DEF-TYPE) tranche or has one with a value (DEF-I-PEN) less than or equal to a nominal amount	Pension Credit (CLASS = 'PC') or members whose date of joining (DJF) and any service history line that starts (HIST-START) after the FS accrual rate change date	No	N/A
Tranches of Pension	Current Status is S or T	Fail A	PEN pension type (PEN-TYPE) has an initial value less than a nominal amount.	N/A	No	N/A
		Fail B	Member with service between 01/04/2008 (09 S&NI) and 31/03/2014 (15 S&NI) has no 'PN60' tranche or has one with a value less than a small figure	Councillor members(CLASS = 'CM') (in England/Wales sites only) or Pension Credit (CLASS = 'PC'). Or Members whose service history periods (with SERV-TYPE = 'L') do not span the period from accrual change to end of final salary (01/04/2008 to 31/03/2014 in England and Wales)	Yes	None
		Fail C	Member with post FS end service has no 'CARE' (PEN-TYPE) tranche or has one with a value (PEN-I-PEN) less than or equal to a nominal figure	Councillor members(CLASS = 'CM') (in England/Wales sites only) or Pension Credit (CLASS = 'PC'). Or members whose date of leaving (DATE-LEFT) is pre final salary end date.	Yes	None
		Fail D	Member with 50/50 CARE tranche (CARE-BNCDE = 'CARE5050' Or 'TVIN5050') has no corresponding pension component (PEN-TYPE = 'CP50') or one with a value (PEN-I-PEN) less than or equal to a nominal figure	N/A	Yes	None
		Fail E	First entry of PI calculated date (PEN-PI-DT[1]) is missing or is prior to the scheme's last PI date (or if the first component is 'GMP' and the PI calculated date is missing or prior to the 6th April prior to the last PI date)	employments with a date left following the scheme's last PI date or those with a an 'X' PI Marker (PEN-PI-MKR)	Yes	None
		Fail F	PEN or GMP is not the first pension type (PEN-TYPE)	N/A	No	N/A

	Transfer In Details 1	Current Status is 1,2,4,5 or T with a Transfer Details record present	Fail A	Transfer Received date (ADD-TV-DT) is blank or on or before 01/01/1900	N/A	Yes	Non current status 1,2 or 4
			Fail B	Transfer value (ADD-TV) is blank or zero	Interfund (ADD-TYPE = 'INTERFND') transfers received pre accrual change date for England and Wales funds (pre end of final salary accrual for Scotland and NI) that credited (ADD-BS-CR) less than 183 days service	Yes	Non current status 1,2 or 4
			Fail C	Back service credit (ADD-BS-CR) and retained pension (ADD-RETP) are both blank or zero.	N/A	No	N/A
			Fail D	Back service credit (ADD-BS-CR) is present, but service history does not have entry starting (HIST-START) on the same date and the transfer service start (ADD-FROM)	Transfers with no back service credit (ADD-BS-CR = 0 or blank)	No	N/A
			Fail E	Transfer type (ADD-TYPE) is not valid (one of "CLUB", "INTERFND", "NON CLUB", "PERSONAL", "RESTITUTIO" or "INTRAFND")	N/A	No	N/A
			Fail F	Date received (ADD-TV-DT) is blank, invalid (on or before 01/01/1900) or earlier than date joined fund (DJF)	N/A	No	N/A
	Transfer In Details 2	Current Status is 1,2,4,5 or T with a Transfer Details record present	Fail A	Previous scheme (ADD-PR-SCH) and previous employer (ADD-PR-EMP) are both blank	N/A	No	N/A
Member Details	Contributions	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Total Paid Including Interest (TCI-TOTAL) is blank or less than (or equal to) a small figure (default of £1.00) agreed with customer	Employment type (CLASS) is Councillor (CM) or Date Joined Fund (DJF) equal to or later than the last posting date	No	N/A
			Fail B	For status 1 members the latest cont date (CONT-DATE) prior to the last posting date and have a corresponding figure (SCH-CONT) (not 0)	Current status not '1' or DJF Date Joined Fund (DJF) equal to or later than the last posting date	No	N/A
	Date Joined Scheme	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Any of Date Joined Scheme (DJF), Date of Birth (DOB) and/or Date commenced current service (DCCPS) Joined Fund are either blank or earlier than or equal to 1/1/1900	N/A	Yes	None
			Fail B	Date Joined Fund (DJF) is earlier or equal to Date of Birth (DOB) plus 15 years	Null DATE-LEFT or DOB	No	N/A

Member Details	Date of Leaving	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Non-active member has blank or invalid date left (DATE-LEFT)	Status 1	Yes	None
			Fail B	Date joined fund (DJF) blank or on or before 01/01/1900	Status 1	Yes	None
			Fail C	Date joined fund (DJF) later than or equal to date left (DATE-LEFT)	Status 1, Fail A cases	Yes	None
			Fail D	Date Left (DATE-LEFT) present for an active member without a previous status 4 or 9	Status not 1 or has previous status 4 or 9 entry	No	N/A
	Employer Details	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Current employer (LOCATION) is blank	N/A	Yes	None
			Fail B	Date Joined employer (DT-JOIN-EM) is either blank or earlier than or equal to 1/1/1900	N/A	Yes	None
			Fail C	Date Joined employer (DT-JOIN-EM) must be earlier than date of birth (DOB) plus 15 years	Null DT-JOIN-EMP or DOB	No	N/A
			Fail D	Employment type (CLASS) is blank	N/A	No	N/A
	Leavers	Current Status is 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	Date Left (DATE-LEFT) is either blank or is earlier than or equal to 1/1/1900	N/A	Yes	None
			Fail B	Date Joined Scheme (DJF) is either blank or is earlier than or equal to 1/1/1900	N/A	Yes	None
			Fail C	Date Left (DATE-LEFT) is earlier than Date Joined Scheme (DJF)	Null DATE-LEFT or DJF	No	N/A

Salary (Final Salary members)	Current Status is 1, 2, 4, 5, 9 or T with service start date (HIST-START) (or date joined fund (DJF) if no service history present) prior to the final salary accrual end date. and member is not pension credit member (CLASS <> 'PC')	Fail A	Blank or invalid latest Pensionable Remuneration Date (PEN-REM-DT)	Employment type (CLASS) is Councillor (CM)	Yes	Non current status 1,2 or 4
		Fail B	For non-active members, neither of the last two pensionable remuneration dates (PEN-REM-DT) equal the member's date of leaving (DATE-LEFT)	Current status (STATUS) is 1 ,2 or 9; or Employment type (CLASS) is Councillor (CM)	No	N/A
		Fail C	The latest Remuneration entry is on a valid date (PEN-REM-DT) but has no amount (PEN-REM)	N/A	No	N/A
		Fail D	Deferred with no, or less than (or equal to) a nominal, Final Pay (DEF-PENREM) value	Not current status 4	No	N/A
		Fail E	Pensioner with no, or less than (or equal to) a nominal, Final Pay (PEN-PS-REM) value	Not current status 5 or T	No	N/A
		Fail F	Active without a pensionable remuneration entry on or after the latest posting date	Not current status 1, Employment type (CLASS) is Councillor (CM)	No	N/A
Service	Current Status is 1, 2, 4, 5, 9 or T and member is not pension credit member (CLASS <> 'PC')	Fail A	If DCCPS > DJF, and DJF < 31/03/2014 (15 S&NI)) then service history must be present	N/A	No	N/A

Appendix 3

LOTHIAN
PENSION FUND

Data Improvement Plan

October 2022

Summary

This improvement plan primarily aims to address the key issues identified in the Fund's Annual Data Quality review which took place in September 2022 and demonstrates the appropriate steps the Fund is taking to tackle the issues raised in the review and how it will improve the data held.

The Fund also undertakes additional measures to ensure that accurate pension benefits are communicated and paid to the correct member or beneficiary.

As result of the McCloud judgement of the public sector pension reforms, significant time and resource will be required for the data collection, analysis, record updates and rectification work to be undertaken by the Fund.

Compulsory onboarding to The Pensions Dashboards eco-system for public sector pension schemes is likely to be postponed to September 2024. The Money and Pension Service can authorise applications to onboard early, which the Fund will take into consideration. Data rectification work prior to onboarding is expected but the work undertaken for TPR should assist in keeping this to a minimum.

Resource will also be essential for the cleansing and preparation of data for the triennial valuation due to be carried out in 2023.

Plan Objectives

- Maintain complete and accurate records to ensure the timeously payment of correct pension benefits.
- Identify members with "gone-away" status and undertake tracing exercises to locate new addresses.
- To prevent and detect fraudulent claims.
- Improve the member online experience by expanding their self-service capabilities.
- Engage with employers to improve the timeliness and quality of member data
- Data collection, analysis and record updates in readiness for the McCloud remedy
- Data rectification in readiness for onboarding the Pensions Dashboard

Outcomes

Objective	Action	Measure	Resource	Timescale
Maintain complete and accurate records to ensure the timeously payment of correct pension benefits	Improvement in the Fund's TPR Data scores for Common and Scheme Specific Data through analysis of records, creation and implementation of rectification plan	Maintain/increase in TPR data scores	Lothian Pension Fund Staff Data analytical tool	September 2023
	The Fund will utilise the Hymans data portal and make corrections where required in preparation for the 2023 valuation submission	Improvement in number of critical errors recorded	Lothian Pension Fund Staff Hymans Data Portal	Summer 2023
Identify members with "gone-away" status and undertake tracing exercise to locate new address	The Fund will carry out annual bulk exercises and online case by case investigations to trace "lost" members.	Reduction in number of members with "gone-away" status	Lothian Pension Fund Staff Accurate Data Services GMG	September 2023
To prevent and detect fraudulent claims	The Fund will participate in the biennial National Fraud Initiative	Results will be used to suspend or stop pension payments	Lothian Pension Fund Staff NFI Portal	Next Initiative 2022/23

	The Fund will use a biometric authentication solution for proof of life verification for our overseas pensioners	Results will be used to suspend or stop pension payments	Lothian Pension Fund Staff Crown Agents	September 2023
	The Fund will submit data to the annual Club Vita exercise for analysis	Results will be used to investigate “suspicious” payments and cleanse longevity data	Lothian Pension Fund Staff Club Vita portal	September 2023
	The Fund will receive Daily Updates from Tell Us Once	Results will be used to suspend or stop pension payments	Lothian Pension Fund Staff TUO portal	September 2023
	The Fund sill submit monthly data to the LGPS NI Database	Checks will be performed for benefits held with other funds to ensure benefit are paid in compliance with legislation	Lothian Pension Fund Staff LGPS NI Database	September 2023
Improve the member online experience by expanding their self-service capabilities	The Fund will propose new development ideas to the software provider and promote the benefits of the latest enhancements	Increase in self service traffic with corresponding reduction in estimate requests	Lothian Pension Fund Staff Heywood programme developers	Ongoing collaboration
Engage with the employers to improve the timeliness and quality of member data	The Fund will provide quarterly Pension Administration Strategy statistics to employers	Analyse the results and identify employers of concern. Deliver training where improvement required	Lothian Pension Fund staff Employer Staff	September 2023

	The Fund will arrange and attend regular meetings with employers to discuss issues and improvement plans	Improved PAS statistics	Lothian Pension Fund staff Employer Staff	September 2023
	The Fund will provide ongoing employer support in the provision of monthly submissions	Increase in percentage of returns submitted by due date. Reduction in manual rectification work	Lothian Pension Fund staff Employer Staff	September 2023
Data collection, analysis and record updates in readiness for the McCloud remedy	The Fund will obtain relevant data from Employers. Complete an analysis of data received and update member records with “missing” data.	Records complete for McCloud bulk underpin calculation	Lothian Pension Fund staff Employer Staff Analysis tools	Awaiting regulations
Data rectification in readiness for onboarding the Pensions Dashboard	Complete a data sense check on data required for Pensions Dashboard and rectify discrepancies	Records dashboard ready	Lothian Pension Fund staff ISP Analysis tools	September 2024

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Pensions Audit Sub Committee

2.00pm, Tuesday, 6 December 2022

Investment Income Review Cross Border Withholding Tax

1. Recommendations

The Pensions Audit Sub Committee is requested to:

1.1 note the report and highlight any points it would like to raise at the Committee on 7 December 2022.

1.2 note further that whilst the review by E&Y shows that Northern Trust is generally applying the correct withholding tax rates on investment income, we have reminded our global custodian of its obligation to take all appropriate steps to expedite receipt of withholding tax reclaims.

John Burns
Chief Finance Officer, Lothian Pension Fund

Contact: Jason Koumides, Financial Manager, Lothian Pension Fund

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Investment Income Review Cross Border Withholding Tax

2. Executive Summary

2.1 This report provides information on a benchmarking assurance review, prepared by Ernst & Young (E&Y), into the effectiveness of the procedures in place to manage the tax exposure on the investment income of the Lothian Pension Fund and the Scottish Homes Pension Fund.

2.2 The review shows that Northern Trust is generally applying the correct withholding tax rates on investment income. E&Y were also asked to comment on the length of time taken to reclaim withheld tax. Although its comments were relatively neutral, the Fund has some concerns with the lack of progress in some markets which it is following up with Northern Trust directly. A summary of the opportunities and issues identified is provided.

3. Background

3.1 Lothian Pension Fund (LPF) and Scottish Homes Pension Fund (SHPF) invest directly in stock markets across the globe. These investments generate income that is potentially liable to income tax in the country of tax domicile. During the 2021/22 financial year the funds earned income from companies in 34 different countries.

3.2 UK pension funds are usually able to benefit from beneficial tax rates. These rates are normally determined by separate tax treaties established between the UK Government and most foreign countries. Tax on dividends varies between 0% and 35%. In contrast, income on fixed interest stocks is usually free from tax.

3.3 In virtually all countries income is subject to taxation at source, so the owner of the investments receives the income net of the appropriate amount of tax. Taxation deducted in this way is called withholding tax or WHT for short.

3.4 In some countries, the preferential rate for UK pension funds is subject to providing the tax authorities of the country concerned with an application and supporting paperwork. The exact requirements vary from country to country and in some cases, can be quite onerous. Failure to have preferential rate approval in place means that income will be subject to a higher rate of tax than is necessary.

3.5 The preferential rate may be applied at source, meaning that there is no tax to reclaim from the foreign tax authority. Alternatively, the rules of the country may require tax to be deducted at the full rate with a subsequent claim having to be made to the tax authority to get repayment of the difference between the full rate and the preferential rate.

3.6 The requirements to make a valid repayment claim and the time it takes for the claim to be paid vary considerably from country to country.

The Role of the Custodian

3.7 The custodian appointed for the two pension funds is Northern Trust (NT). In addition to the vital role of holding title to investments on behalf of the investor, the global investment custodian is responsible for the management of the procedures and processes that relate to the taxation of investment income.

The Scale of Activity

3.8 The tables below show the movement in the reclaimable tax balances during the 2021/22 and 2020/21 financial years for LPF and SHPF.

Lothian Pension Fund	**2021/22 £**		**2020/21 £**
Brought Forward 1 April	14,900,747.76		14,899,949.67
Recoverable tax accrued during year	7,042,029.31		5,684,175.59
Claims paid during year	(779,407.62)		(5,683,377.50)
Carried Forward 31 March	21,163,369.45		14,900,747.76

Scottish Homes Pension Fund	**2021/22 £**		**2020/21 £**
Brought Forward 1 April	11,780.50		27,104.13
Recoverable tax accrued during year	(93.92)		(188.90)
Claims paid during year	-		(15,134.73)
Carried Forward 31 March	11,686.58		11,780.50

3.9 The balance carried forward increased by £6.3m for LPF and remains around £11.7k for SHPF.

3.10 The year-end recoverable tax balances at 31 March 2022 and 31 March 2021, broken-down by country, are provided for each of the Funds in the tables below.

Lothian Pension Fund	Reclaim Amount 31/03/2022 £	Number of Dividends 31/03/2022		Reclaim Amount 31/03/2021 £	Number of Dividends 31/03/2021
Austria	13,346.69	2		13,453.94	2
Belgium	1,136,624.71	23		965,970.17	17
Canada	996,988.86	104		212,156.72	21
Denmark	434,170.34	49		320,376.08	46
Finland	1,879,923.50	11		560,947.48	6
France	5,447.90	2		-	-
Germany	6,519,623.14	151		5,556,545.69	127
Netherlands	471,209.40	28		612,486.73	31
Portugal		-		50,632.48	3
Spain	84,627.24	8		-	-
Switzerland	8,749,159.87	89		6,131,495.87	68
United Kingdom*	862,518.87	20		476,662.60	18
United States	9,728.93	2			
Grand Total	21,163,369.45	489		**14,900,746.76**	**339**

Scottish Homes Pension Fund	Reclaim Amount 31/03/2022 £	Number of Dividends 31/03/2022		Reclaim Amount 31/03/2021 £	Number of Dividends 31/03/2021
Germany	11,686.58	4		11,782.50	4
Grand Total	**11,686.58**	**4**		**11,782.50**	**4**

* Relates to UK listed overseas companies dividends.

3.11 SHPF had direct holdings in equity investments during the period March 2017 to March 2018. An Index Linked Gilts strategy was adopted in March 2018. As a result, SHPF had some outstanding withholding tax claims at 31 March 2022 relating to this period of equity investment.

3.12 For LPF, Switzerland accounts for 41% (41% at 31 March 2021) for the total amount receivable. The reason the Swiss total claim value is so large is that 35% tax is deducted on all dividends and the 0% rate relief is obtained by claiming the tax paid back. There are few other countries where the tax deducted at source is so high.

3.13 The Swiss, German, Belgian and Finnish claims are analysed in more detail later in this report.

4. Main Report

Benchmarking (Assurance) Review

4.1 Given the complexity and scale of the taxation of investment income, it is important that LPF's custodian, Northern Trust (NT), provides an efficient service. Failure to ensure that the correct tax rates are being applied would result in a direct loss of income. Poor management of the tax reclaim process could mean that recoverable tax is never recovered or delayed.

4.2 In order to assess the effectiveness of NT's work, E&Y has been commissioned to prepare a benchmarking assurance report. The remit was to carry out a review of the WHT suffered for the period 1 August 2021 to 31 July 2022. E&Y have also been asked to review the timeliness of the WHT reclaims made by the custodian in respect of this period.

Findings – WHT Rates Applied

4.3 The E&Y study found that in general optimal WHT rates appear to have been achieved by the Fund for the majority of dividend distributions received. Although E&Y were not overly concerned, discussions continue with NT over the length of time taken to receive reclaims (particularly for the German and Swiss markets) where the Fund hopes claims can be expedited.

4.4 The reclaim process consists of the custodian preparing an application in the required format for the country concerned. Once the application has been lodged with the tax authorities of the country, it will take the authority an amount of time to process the claim and pay the refund. This processing time varies from country to country – some take a matter of months and others will take a number of years.

4.5 Swiss claims accounted for 41% (£8,749k) of the value of Lothian Pension Fund claims. The amounts due can be summarised as follows:

Year	**Lothian Pension Fund**	**Lothian Pension Fund**	**Lothian Pension Fund**	**Comment**
	30/9/22 £	**31/3/22 £**	**31/3/21 £**	
2019	2,573k	2,333k	2,177k	NT status at 30 September 2022: "Reclaim Submitted to Sub Custodian"
2020	3,239k	2,937k	2,740k	NT status at 30 September 2022: "Certification Requested"
2021	2,398k	2,175k	1,214k	NT status at 30 September 2022: "Claim under preparation"
2022	2,660k	1,304k	-	Claim cannot be made until the end of the calendar year.

Year	Lothian Pension Fund	Lothian Pension Fund	Lothian Pension Fund	Comment
Total	**10,870k**	**8,749k**	**6,131k**	

4.6 NT had previously warned that delays in the receipt of reclaims should be expected due to the pandemic. Tax reclaims for this market are predominantly paper based, and only with staff returning to their office could claims be submitted. They have reassured that there is no risk in the statute of limitations being missed for making the necessary submissions and the processing of the backlog has been prioritised.

4.7 For Germany, the position for the LPF claims can be summarised as follows:

Year	Lothian Pension Fund	Lothian Pension Fund	Lothian Pension Fund	Comment
	30/9/22 £	**31/3/22 £**	**31/3/21 £**	
2016	715k	688k	694k	NT status at 30 September 2022: "Reclaim Submitted to Sub Custodian"
2017	972k	936k	943k	NT status at 30 September 2022: "Reclaim Submitted to Sub Custodian"
2018	1,146k	1,103k	1,112k	NT status at 30 September 2022: "Reclaim Submitted to Tax Authority"
2019	1,444k	1,390k	1,401k	NT status at 30 September 2022: "Reclaim Submitted to Sub Custodian"
2020	1,304k	1,256k	1,266k	NT status at 30 September 2022: "Reclaim Submitted to Sub Custodian"
2021	1,013k	976k	141k	NT status at 30 September 2022: "Market Issue"
2022	1,661k	169k	-	Claim cannot be made until the end of the calendar year.
Total	**8,255k**	**6,520k**	**5,557k**	

4.8 The Germany Tax Authorities introduced a holding period requirement where claimants must not of traded 45 days prior to and after the dividend ex-date where the reclaim is greater than 15%. UK pension funds have also been caught under this bracket. NT now have a procedure in place to capture this requirement and has submitted reclaims for 2016-2020 which the Fund now awaits payment.

4.9 For Belgium, the position for the LPF claims can be summarised as follows:

Year	Lothian Pension Fund	Lothian Pension Fund	Lothian Pension Fund	Comment
	30/9/22 £	**31/3/22 £**	**31/3/21 £**	
2019	546k	526k	530k	NT status at 30 September 2022: "Reclaim Submitted to Sub Custodian"
2020	449k	432k	436k	NT status at 30 September 2022: "Market Issue"
2021	185k	179k	-	NT status at 30 September 2022: "Market Issue"
2022	117k	-	-	Claim cannot be made until the end of the calendar year.
Total	**1,297k**	**1,137k**	**966k**	

4.10 Like Germany the Belgian tax authorities have introduced a holding period requirement for foreign pension funds. NT have now implemented a procedure to automate the process for collecting this data.

4.11 Further comment is being sought from NT on 2020/21 tax reclaims currently marked as "Market Issue", thought reclaims are currently in NT's backlog of paperwork awaiting submission.

4.12 For Finland, the position for the LPF claims can be summarised as follows:

Year	Lothian Pension Fund	Lothian Pension Fund	Lothian Pension Fund	Comment
	30/9/22 £	**31/3/22 £**	**31/3/21£**	
2020	477k	459k	463k	NT status at 30 September 2022: "Reclaim Submitted to Sub Custodian"
2021	1,284k	1,236k	98k	NT status at 30 September 2022: "Claim under preparation"
2022	1,478k	184k		Claim completed at the end of the calendar year.
Total	**3,239k**	**561k**	**561k**	

4.13 Previously Finnish market offered tax relief at source, instead now full 35% tax rate suffered on investment income which can then be reclaimed. NT have commented that it is a complex manual process with additional steps required for claimants reclaiming below a 15% tax rate (LPF entitled to 0%).

4.14 NT have submitted all required paperwork for the 2020 period and is in the process of submitting a reclaim for the 2021 period.

4.15 The Canadian position (£997k) is also of note. All withheld tax relates to the 2021 period where new requirements were put in place. NT now have a automated process eliminating the need for retrospective reclaims. 2021 reclaims are currently in the process of being submitted.

4.16 E&Y have highlighted the opportunity to reclaim withheld tax in the Taiwanese market. Due to the complexity of the reclaim process this falls out of the scope of the claims the custodian would do on behalf of their clients. The Fund has participated in these reclaims in the past and plans to do a procurement exercise to appoint a consultant to do this work.

5. Financial Impact

5.1 The financial impact of the withholding tax claims is described in section 3.8 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

None.

by virtue of paragraph(s) 1, 6 of Part 1 of Schedule 7A
of the Local Government(Scotland) Act 1973.

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