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Notice of Meeting and Agenda

Pensions Audit Sub-Committee

2.00 pm Monday, 19th June, 2023

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 Any items under "Private Business" will not be published, although the decisions will be recorded in the minute.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:

Susan Handyside, Governance Manager, Lothian Pension Fund

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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. Minutes

5.1	Minute of Pensions Audit Sub-Committee of 21 March 2023 - submitted for approval as a correct record	7 - 10

6. Reports

6.1	Agenda Planning – report by the Chief Executive Officer, Lothian Pension Fund (circulated)	11 - 18
6.2	Lothian Pension Fund – Annual Report and Accounts (Unaudited) - report by the Chief Finance Officer, Lothian Pension Fund (circulated)	19 - 218
6.3	IA Annual Report and Opinion Year End 31 March 2023 - report by the Head of Internal Audit, City of Edinburgh Council (circulated)	219 - 228
6.4	Internal Audit Update – report by the Head of Internal Audit, City of	229 - 258

Edinburgh Council (circulated)

6.5 Compliance and Risk Quarterly Update – report by the Chief Risk Officer, Lothian Pension Fund (circulated) 259 - 276

7. Motions

7.1 None.

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 IT Information Security Update – report by the Chief Operating Officer, Lothian Pension Fund (circulated) 277 - 290

Nick Smith

Service Director Legal and Assurance

Committee Members

John Anzani (Convener); Councillors Doggart and Ross

Please note that Jim Anderson, Pension Board Employer representative, Nick Chapman, Pension Board Member representative 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, 144 Morrison Street, Edinburgh and is open to members of the public. The meeting will be monitored by Susan Handyside.

Pension Board Members

Alan Williamson, Brian Robertson, Darren May, Jim Anderson (Chair), 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 Dr Stephen S Moir, Executive Director of Resources 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
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 on the City of Edinburgh Council committee portal.

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Pensions Audit Sub-Committee Minutes

3pm, Tuesday 21 March 2023

Present:

John Anzani (Convener) and Councillor Neil Ross.

Pension Board Member present:

Brian Robertson.

Other Attendees:

Andy McKinnell (Independent Professional Observer), Nick Bennett (External Auditor, Azets) and Laura Calder (Head of Internal Audit, City of Edinburgh Council)

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

There were no declarations of interests from members.

4. Minute

Decision

To approve the minute of the Pensions Audit Sub-Committee of 6 December 2022 as a correct record subject to adjustment of a minor typographical error in the confidential schedule to the minute.

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 June, September and December 2023 was presented.

Decision

1) To note the agenda planning document and revisions for the June, September and December 2023 meetings.

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

3) To note the introduction of the new governance portal.

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

7. Lothian Pension Fund – Internal Audit Update – February 2023

An update was provided on progress of Internal Audit (IA) assurance activity on behalf of Lothian Pension Fund (LPF) carried out by the City of Edinburgh Council's internal audit team.

Delivery of the four audits included in the 2022/23 internal audit annual plan was underway with the two audits completed and a further audit in progress.

A report detailing the outcome of the Third-Party Supplier Management audit was also included for review and scrutiny.

Due to unforeseen absence of key contacts, the Information Security Arrangements audit had been delayed and it was proposed, in the circumstances, that this audit should be deferred to Quarter 1 of the 2023/24 IA Plan.

Internal Audit's opinion was that the three audits due for completion in the 2022/23 IA Plan would be sufficient to provide an annual audit opinion for the year end 31 March 2023.

As at 9 February 2023, LPF had fourteen agreed management actions with one action past the original implementation date.

Decision

1) To note the progress of delivery with the 2022/23 Lothian Pension Fund internal audit plan including the outcomes of the recent Third-Party Supplier Management Audit.

2) To note progress with delivery of the Information Governance Audit currently underway.

3) To recommend to the Pensions Committee approval of a request to defer the Information Security Arrangements Audit to the 2023/24 Internal Audit Plan.

4) To note that the draft 2023/24 Lothian Pension Fund annual internal audit plan was presented to the Sub-Committee for review and approval in a separate paper at this meeting.

5) To progress with implementation of agreed management actions from previously completed internal audits.

(References – Pensions Audit Sub-Committee 9 December 2022 (item 7); report by the Head of Internal Audit, City of Edinburgh Council, submitted)

8. Lothian Pension Fund – Proposed Internal Audit Plan for 2023/24

The proposed Internal Audit (IA) Plan for the period 1 April 2023 to 31 March 2024 was submitted. The audit universe had been expanded for 2023/24 to include the LPF Group structure and to provide assurance for the LPFI and LPFE boards where appropriate. The plan would also include ongoing IA follow-up on implementation of management actions arising from previous internal audit reports.

In April 2020, the Chartered Institute of Public Finance and Accountancy (CIPFA) recommended introduction of standard definitions for audit report opinions to support consistency across public body organisation. It was proposed that the standard CIPFA definitions were adopted to apply for LPF internal audit reports from 2023/2024 onwards.

Decision

1) To recommend to the Pensions Committee approval of the proposed Lothian Pension Fund 2023/24 Internal Audit Plan.

2) To note the expansion of the audit universe to include LPFE and LPFI enabling provision of a single integrated audit programme.

3) To recommend to the Pensions Committee approval of proposals to adopt the CIPFA standard definitions for audit report overall opinions from 2023/24 onwards.

(References – Pensions Audit Sub-Committee 27 September 2022 (item 9); report by the Senior Audit Manager, City of Edinburgh Council, submitted)

9. External Audit Annual Plan 2022/23 by Azets

Audit Scotland had appointed Azets as the external auditor to Lothian Pension Fund and Scottish Homes Pension Fund for the period 2022/23 to 2026/27.

The external auditor presented the planned programme of work to support the statutory audit for 2022/23. The core elements of the work included:

- Audits of the 2022/23 annual report accounts
- Consideration of the wider scope areas of public audit work
- Consideration of the Funds' arrangements to secure Best Value
- Assessment of the Funds' participation in the National Fraud Initiative
- Any other work requested by Audit Scotland

Decision

1) To note the planned programme of work to support the statutory audit 2022/23 by Azets set out in Appendix 1 of the report by the Chief Finance Officer, Lothian Pension Fund.

2) To note that progress against the Lothian Pension Fund External Audit Annual Plan 2022-23 would be reported to future meetings of the Pensions Audit Sub-Committee and the Pensions Committee.

(References – report by the Chief Finance Officer, Lothian Pension Fund, submitted)

10. 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 and statement of risk appetite.

A detailed paper and operating plan had been created to support the proposed changes to LPF's existing risk management arrangements.

A key part of the operating plan would be an evaluation of the effectiveness of changes as they were introduced and embedded through observation, feedback and testing with regular updates on the programme being provided to the Sub-Committee.

Decision

1) To note the LPF Group's risk register and quarterly risk overview.

2) To note that exploratory work and analysis had commenced regarding the creation of a single integrated audit programme for Lothian Pension Fund.

3) To note, however, that due to governance complexities and ambiguities with existing arrangements, no changes would be made in the 2023/24 cycle arrangements.

4) To note that the proposed scope of the City of Edinburgh Council's Internal Audit Plan for the next year would be extended to provide coverage to LPFE and LPFI.

5) To welcome the improved integration, oversight and collaboration between the LPF staff team and the internal and external audit teams.

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

Pensions Audit Sub Committee

2.00pm, Tuesday, 19 June 2023

Agenda Planning

Item number 6.1

1. Recommendations

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

1.1 note the agenda planning document and the revisions to the agenda planning document; and

1.2 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) provides 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 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 September and December meetings are set out in the following tables, based on the usual Committee cycle plus any additional and intra-cycle requests.

September 2023

Pensions Committee	**Audit Sub Committee**
• Referrals/ recommendations from Pensions Audit Sub Committee • Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund • Annual Report by External Auditor (if available) • Employer Covenant Review • Stewardship Code Review • Business Plan and Budget Update • Lothian Pension Fund Contract Awards Report • Employers Participating in Lothian Pension Fund • Risk and Compliance Update	• Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund • Annual Report by External Auditor (if available) • Internal Audit Update • Fraud Prevention • Risk and Compliance Update

December 2023

Pensions Committee	Audit Sub Committee
• Referrals/ recommendations from Pensions Audit Sub Committee • Annual Report by External Auditor (if not available in September) • Stewardship and Engagement • Business Plan and Budget Update • Risk and Compliance Update	• Annual Report by External Auditor (if not available in September) • Investment Income review Cross border Withholding Tax • Global Custody Services Performance • Pensions Data Quality • Internal Audit Update • Additional Voluntary Contribution (AVC) Review (NEW) • Internal Audit Update • IT Information Security Update (NEW) • Risk and Compliance Update

March 2024

Pensions Committee

- LPF Strategy and Business Plan (operating plan) and Budget
- Actuarial Valuation for Lothian Pension Fund
- Actuarial Valuation for Scottish Homes Pension Fund
- Funding Strategy Statement
- Audit Plans (Internal and External)
- LPF Internal Audit Review
- Policies and Strategies Update
- Benchmarking
- Risk and Compliance update

The Audit Sub Committee meet three times a year but have an additional meeting scheduled on Tuesday 19 March 2024. The audit committee will agree whether there is sufficient reason to hold the meeting in due course.

Future Pensions Committee and Audit Sub Committee dates

4.2 The Committee meeting dates for 2023/24 are set out below and calendar invites have been issued to you. These meetings will be held in person with the option, if required, to attend virtually.

Pensions Committee	Audit Sub Committee
• Wednesday 27 September 2023 at 2pm • Tuesday 5 December 2023 at 1.30pm • Wednesday 20 March 2024 at 2pm • Wednesday 26 June 2024 at 2pm	• Tuesday 26 September 2023 at 2pm • Monday 4 December 2023 at 2pm • Tuesday 19 March 2024 at 2pm • Tuesday 25 June 2024 at 2pm

5. Financial impact

5.1 None.

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 City of Edinburgh Council, Committee Terms of Reference (sections 13 and 24)

8. Appendices

Appendix 1 – LPF's Annual Agenda Planning Cycle

Appendix 1

Frequency	Pensions Committee	Audit Sub Committee
Every 3 years	**December or March**	
	Actuarial Valuation: LPF SHPF (next report due Mar 2024)	N/A
	March	
	Funding Strategy Statement (review due June 2023 with final version presented for approval in March 2024)	N/A
Biennial	**September**	
	Pension Administration Strategy (presented in March 2022)	N/A
	Administrating authority Discretions Policy. Next review due September 2024	N/A
Annually	**March**	
	LPF Strategy and Business Plan and Budget	N/A
	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.*
	Benchmarking – Investment and Administration Costs	N/A
	June	
	LPF Annual Report and Accounts (Unaudited)	LPF Annual Report & Accounts (Unaudited)
	LPF Internal Audit Opinion	LPF Internal Audit Opinion
	Statement of Investment Principles	N/A
	Joint Investment Strategy Panel Activity	N/A
	Annual Investment Updates - Lothian Pension Fund and Scottish Homes Pension Fund	N/A
	Annual LPF Group Governance Update	N/A

Appendix 1

Frequency	Pensions Committee	Audit Sub Committee
	September Employer Covenant Review Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund (including the Annual Report by External Auditor) Stewardship Code Review N/A Lothian Pension Fund Contract Awards Report **December** Annual Report by External Auditor **(or September if available)** N/A Stewardship and Engagement N/A N/A N/A N/A	N/A Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund (including the Annual Report by External Auditor) N/A Fraud Prevention N/A Annual Report by External Auditor **(or September if available)** Investment Income Review-Cross-Border Withholding Tax N/A Pensions Data Quality Global Custody Services Performance Compliance Update and Risk Management: In-depth review Additional Voluntary Contributions (AVC) Review
Semi Annually	**March & September** Employers Participating in Lothian Pension Fund **June & December** N/A	N/A IT Information Security Update
3 Times per year	**March[1], September & December** Operating Plan and Budget Update	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

Appendix 1

LOTHIAN PENSION FUND

Frequency	Pensions Committee	Audit Sub Committee
	June, September & December Referrals / recommendations from Pensions Audit-Sub N/A	N/A Risk and Compliance Update
Quarterly	**March, June, September & December** Risk and Compliance Update	Internal Audit Update
As required	Investment Strategy Reviews (at least every 3 years – next due June 2024)	N/A

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Pensions Audit Sub-Committee

2.00pm, Tuesday, 19 June 2023

LPF Unaudited Annual Report (and Financial Statements) 2023

Item number 6.2

1. Recommendations

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

1.1 note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2023 for Lothian Pension Fund and Scottish Homes Pension Fund;

1.2 note that the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2023 will be submitted to the auditor, Azets Audit Services Limited, by the due date of 30 June 2023;

1.3 note that, at the time of writing, final proof reading of the report, as appended, is still underway and therefore potential corrections and any minor amendments will be completed prior to release to the auditor and publication on the website.

David Vallery

Chief Executive Officer, Lothian Pension Fund

Contact: Jason Koumides, Financial Controller, Lothian Pension Fund

Susan Macfarlane, Head of Communications, Lothian Pension Fund

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

LPF Unaudited Annual Report (and Financial Statements) 2023

2. Executive Summary

2.1 The purpose of this report is to present the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2023 for Lothian Pension Fund and Scottish Homes Pension Fund.

2.2 A copy of the unaudited Pension Funds' Annual Report 2023 is attached as Appendix 1.

2.3 Despite volatile markets the Lothian Pension Fund has made a small positive return for the year. This results in Lothian Pension Fund (Group) net asset valuation as at 31 March 2023 being broadly inline with last year £9,700.6m (2022 - £9,605.2m).

2.4 Scottish Homes Pension Fund has a mature membership profile, with its investment objective to match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the Fund. Over the year the Fund's assets and liabilities have declined but funding level has remained consistent with last year.

3. Background

Statutory provisions and accounting guidance
Local Government (Scotland) Act 1973

3.1 Section 95 of the Local Government (Scotland) Act 1973 states that "every local authority shall make arrangement for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs". The Service Director: Finance and Procurement serves as the Section 95 Officer for all of the City of Edinburgh Council's accounting arrangements, including those of the Pension funds. In previous years the Section 95 responsibility was delegated to Lothian Pension Funds' Chief Finance Officer, but due to this post being vacant this responsibility has fallen back to the Finance and Procurement Service Director.

The Local Authority Accounts (Scotland) Regulations 2014

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

Accounting and other guidance

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

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

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

a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;

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

(b) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 60 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation;

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

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

(e) an annual report dealing with –

(i) the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a (pension administration strategy); and

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

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

(g) the current version of the statement under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (statement of investment principles);

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

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

3.4 Local authorities are required to account for pension funds in accordance with the applicable Code of Practice in Local Authority Accounting in the United Kingdom (the Code). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approval accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The Code now requires that preparers have regard to Chartered Institute of Public Finance and Accountancy (CIPFA) guidance "Accounting for Local Government Pension Scheme Management Costs".

3.5 In March 2016, CIPFA revised and updated this guidance. Whilst the underlying principle of transparency of investment cost remained unchanged, a degree of relaxation to full cost disclosure was introduced. Specifically, for complex "Fund of Fund" structures, "Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be includes in the (Pension) Fund Account……If pension funds wish to provide information about the total cost of Fund of Fund investments, this should be included as part of the Investments section in the Annual Report".

3.6 The financial statements of Lothian Pension Fund and Scottish Homes Pension Fund continue to include full transparency of all investment management fees.

3.7 With the, FCA regulated, investment services company, LPFI Limited, commencing trading on 28 February 2017, consolidated financial statement have again been prepared for Lothian Pension Find for the year 31 March 2023. These consolidated financial statements combine those of the Fund (the parent entity) and its controlled entities (the investment staffing company, LPFE Limited, and now also LPFI Limited) as defined in International Accounting Standard (IAS) 27.

4. Main Report

LPF Unaudited Annual Report 2023

4.1 A copy of the unaudited Annual Report (and Financial Statements) for the year to 31 March 2023 for Lothian Pension Fund and Scottish Homes Pension Fund is attached as Appendix 1.

4.2 In considering the unaudited Pensions Funds' Annual Report, Committee should note the following:

Financial Summary

4.3 Despite volatile markets the Lothian Pension Fund has made a small positive return for the year. This has resulted in Lothian Pension Fund (Group) net asset valuation as at 31 March 2023 being broadly inline with last year £9,700.6m (2022 - £9,605.2m).

4.4 Scottish Homes Pension Fund has a mature membership profile, with its investment objective to match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the Fund. Over the year the Fund's assets and liabilities have declined but funding level has remained consistent with last year.

Governance

4.5 The Annual Report includes an Annual Government Statement which sets out details of how the Funds are governed and the internal controls that are in place to manage risk. This mirrors the requirement to have a similar statement within the Financial Statements of the Council.

4.6 The Annual Report also encompasses a Governance Compliance Statement, which is a requirement of the LGPS Regulations. Its purpose is to record the extent to which the constitutional governance arrangements comply with best practice guidance issues by the Scottish Public Pensions Agency.

4.7 Related to the Annual Governance Statement is the Statement of Responsibilities for the Statement of Accounts. This sets out the respective responsibilities of the Administering Authority.

4.8 The funds have separate Actuarial Statement, prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. This provides a summary of the triennial valuation as at 31 March 2020, with commentary by the actuary of the experience over the subsequent year.

5. Financial impact

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

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

Appendix 1 – Unaudited Annual Report (and Financial Statements) 2023 for Lothian Pension Find and Scottish Homes Pension Fund

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

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

LOTHIAN
PENSION FUND

2022/23

ANNUAL REPORT
AND ACCOUNTS


AIR TICKET
Name :
Lastname :
Date :
CREDIT CARD

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A MESSAGE FROM THE CONVENOR OF THE PENSIONS COMMITTEE

Our responsibility as an administering authority of the LGPS Pension Fund is to offer stability to our scheme members and employers. This year Lothian Pension Fund (LPF) has continued to improve and develop the organisation to ensure that it provides the pension services that its members and employers expect and deserve.

After the Council elections in May 2022, I was appointed Convenor of the Pensions Committee and LPF also welcomed two other new Pension Committee members, Councillor Nicolson and Councillor Doggart. Together with the continuing members, Councillor Ross, Councillor Burgess, Richard Lamont and John Anzani, the committee has continued the work of our predecessors, whilst bringing a fresh perspective, new ideas and constructive feedback to LPF.

In the pages that follow, the team will highlight the progress made in terms of LPF's pensions administration and investment activities, as well as the strategy and business plan. The report will also highlight the significant work undertaken on key projects, including further developing risk management and governance practices and the implementation of new legislation.

LPF is acutely aware of the difficult financial climate and in the coming year, LPF will continue to strengthen its governance, pensions administration, finance and investment arrangements with the aim of providing services that are efficient and effective.

I would like to extend my thanks to the Committee and Pension Board and all the Fund's employees for their continuing commitment to member-focussed change, which is vital for delivering services that meet or exceed the expectations of the scheme's members and employers. I hope you find the LPF annual report and accounts informative and useful.

Mandy Watt
Convenor of the Pensions Committee 2022/23
Lothian Pension Fund
21 June 2023

A REVIEW OF 2022/23

The financial year 2022/23 has seen the continuation of the conflict in Ukraine, and exacerbation of the cost-of-living crisis, with the latter leading to significant levels of industrial action, especially in the public sector with workers looking for significant pay increases to protect their earnings.

The passing of Queen Elizabeth II after 70 years on the throne and the subsequent coronation of King Charles III, illustrates both a commitment to service and the need for continuity alongside change.

It's within this context that I'm pleased to share some of our key highlights and achievements during 2022/23, demonstrating how colleagues at Lothian Pension Fund have continued to support our members, meet our commitments on responsible investing, and progress the priorities set out in our business plan.

Progress against our Strategy and Business Plan

We launched our new Strategy and Business Plan in early 2022. It's underpinned by four strategic goals:

- Develop and deliver a member and employer proposition for service excellence
- Earn an appropriate risk adjusted investment return as responsible investors
- Extend collaboration and services to existing partners and deepen where possible
- Achieve greatness in our people, teams and culture.

These goals are set by our Vision "to deliver outstanding pension and investment services for the benefit of members and employers". Despite the challenges of the current economic climate, we were able to make good progress towards delivering these goals and you can read more about our progress throughout this report.

Delivering for our members and their families

2022 got off to a great start as we welcomed our colleagues back into the office in February following the easing of lockdown restrictions. We were pleased to be able to re-introduce inbound calls from 1 February 2022 through our new and improved phone system. This was a great step forward for service excellence and member feedback has been very positive. Our new IT system has given us scope to do this more efficiently and effectively than before.

2022/23 was another year of success and progress for LPF. We continued to deliver for our members, paying out £196,061,842 to 35,632 members and welcoming 7,553 new members.

Providing excellent customer service to our members and employers is at the heart of what we do, so we were delighted to achieve Pensions Administration Standards Association (PASA) reaccreditation along with the Customer Service Excellence Award. We also scored 92.7% for overall customer satisfaction in our annual surveys.

A REVIEW OF 2022/23

Enhancing our digital proposition

We launched our new website in March 2022, where members and visitors can learn more about us, read our latest news and publications, access their pension, and view our vacancies in one, easy to navigate place. In addition, we issued our first ever electronic communication to members in the form of the Penfriend e-zine to our pensioners. This enables us to communicate more frequently with the large number of our members who have opted into electronic communications.

Our Digital strategy continued to progress and allowed for more on-line processing and self-service options for our members which has significantly reduced the timescales involved. We introduced on-line facial recognition software in August 2022 to make our 'Annual Proof of Existence' checks easier for our overseas members.

Secure benefits and a higher funding level

Benefits in Lothian Pension Fund are protected by a statutory guarantee and members can be confident their pensions will be paid when they fall due. Every three years we're required to appoint an independent actuary to undertake a valuation. The most recent valuation was conducted with a reference date of 31 March 2020 and the results are included in this report. The total funding level for Lothian Pension Fund was 106%.

Put simply, this is a measurement of the sufficiency of the assets the Fund holds today to meet the benefits members have earned and expect to receive in the future. A valuation above 100% is a positive result, but benefit obligations increase every day, and the Fund is required to generate positive asset returns and collect contributions to ensure the funding level remains sufficient.

The total assets of the Fund at the end of March 2023 were £9,701m (March 2022 £9,607m).

Work has commenced on the new valuation as at 31 March 2023. The results of this should be reported on in next year's annual report.

WHAT OUR MEMBERS SAY:

"Very approachable staff, efficient and friendly professional service."

A REVIEW OF 2022/23

Investing in our people

During the year we recruited 26 new colleagues across a variety of roles within the Member Services, Finance, Legal, Risk & Compliance, Governance, Investment and IT teams. This includes Kerry Thirkell as Chief Risk Officer, who joins my Senior Leadership Team and the Board of LPFI, our regulated asset management company. Kerry brings extensive experience into this critical role and will help ensure our risk management framework and processes are robust and fit for purpose.

Hiring these colleagues will not only ensure that we remain adequately resourced to deliver what we need today but will enable us to continue to improve our capabilities and the services we deliver to our members and employers. You can read more about what we're doing to make LPF a great place to work on pages 59-64.

The LGPS in Scotland and Northern Ireland

LPFI continued to provide advisory services to the LGPS funds of Fife, Falkirk, Scottish Borders, and Northern Ireland, as well as managing assets for Falkirk (two sovereign bond portfolios and a global equity portfolio) and for Fife (two global equity portfolios and one sovereign bond portfolio). In September 2022, we were pleased to receive confirmation from the FCA that the asset cap restricting the funds under management of LPFI was removed. This enables us to increase the funds we can manage for the Falkirk and Fife funds.

We continued to explore a merger with Falkirk Council Pension Fund. Work to take the proposal forward will continue this year, subject to approval by both the City of Edinburgh and Falkirk Councils, and regulatory approval in both Scotland and the UK.

Maintaining momentum on responsible investment

Our focus and commitment to being a responsible investor continued. Our investment strategy currently seeks alignment with the Paris goals and uses the Transition Pathway Initiative to guide us in this regard. We intend to explore a net zero commitment in 2023 and would expect to introduce such a commitment and target date once we're confident about what such a commitment means for a fund and that we're capable of achieving it.

In March 2023, we were proud to be listed as a signatory to the UK Stewardship Code, following the publication of our Stewardship Report. Stewardship is the responsible oversight, management, and allocation of capital to create long-term value for clients and beneficiaries that lead to sustainable benefits for the economy, the environment and society. Our report demonstrates the nature of our commitment to stewardship for the benefit of our stakeholders and demonstrates how we're delivering against the 12 principles set out by the Financial Reporting Council.

A REVIEW OF 2022/23

We published Issues 5 and 6 of our ESG ezine, *ENGAGE,* which gives detailed information on LPF's approach to ESG and our responsible investment activities.

We continue to work with the Scottish Local Government Pension Scheme Advisory Board, who are considering enhanced climate change reporting, and advising Scottish Ministers following the Department for Levelling Up, Housing and Communities public consultation on the same subject for the Local Government Pensions Schemes (LGPS) in England and Wales.

McCloud and The Pensions Dashboard

The 'McCloud judgement' is a court ruling which found that the transitional protections for older workers provided in 2015, alongside the move of the Local Government Pension Scheme (LGPS) in Scotland from a final salary benefit structure to a career average scheme, were age discriminatory. Following this judgement, the government has been consulting on a revised scheme to extend similar protection to more workers and thereby rectify this prior discrimination on an equitable basis. Regulations are expected towards the end of 2023, and we remain ready to communicate with employers and members on the requirements and implications.

The Pensions Dashboard Regulations 2022 were laid and approved by the UK government and came into force on 12 December 2022. Between 2023 and 2025, pension schemes will be compelled to join the ecosystem by their staging deadline, which is 30 September 2024 for public service pensions. Pensions Dashboards will give increased transparency of expected pension benefits. The primary impact for LPF beyond supporting its introduction, is the likely increase in member queries from the increased visibility.

Affordability of pensions

During the year we assisted three employers with a managed exit from the Fund and we have a total of 19 funding agreements in place for employers who have previously exited in respect of satisfying their obligations to the Fund in regards to their employees. We amended our Funding Strategy Statement in line with regulatory amendments which allow greater flexibilities to help funds manage employer exits.

Oversight and governance of the Fund

The local elections in May 2022 resulted in changes to the composition of the Pensions Committee. Councillor Mandy Watt took over as convenor, with Councillors Doggart and Nicolson joining the

Total assets at year end 2023

£9,701m

Total assets at year end 2022

£9,607m

A REVIEW OF 2022/23

Committee. Councillors Rose, Child and Munn left the Council and Committee following the elections and I'd like to acknowledge their contribution to the effective governance of the Fund. With a comprehensive induction programme and continuity provided by the four remaining members of the Committee, good governance was maintained through the transition.

Throughout this report, there's comment from Mandy on behalf of the Pensions Committee, from Jim Anderson on behalf of the Board, Hugh Dunn on behalf of the LPFI and LPFE Boards and from Andy McKinnell as our Independent Professional Observer. Each of these roles and the bodies they represent perform a vital function in supporting the governance of Lothian Pension Fund. Beyond fulfilling their prescribed roles, each has provided me and the colleagues in the Fund with encouragement, counsel, and guidance, and on behalf of the team, I wish to express our collective gratitude.

David Vallery
Chief Executive Officer
Lothian Pension Fund
21 June 2023

GOVERNANCE AND RISK

Lothian Pension Fund (LPF) administers the Local Government Pension Scheme (LGPS) in Edinburgh and the Lothians. We're a multi-employer scheme with over £9.6 billion of assets at end March 2023 and were 106% funded at our last valuation in 2020, managing 93,716 records of 87,716 members and 63 employers. Lothian Pension Fund is the second largest LGPS fund in Scotland.

We also manage the Scottish Homes Pension Fund on behalf of the Scottish Government. This is a closed fund and has 1,349 deferred and pensioner members with £0.13 billion investments.

We manage over 85% of assets in-house investing in infrastructure, property and timberland in the private market portfolios as well as listed equity and bond portfolios.

LPF is unique within the Scottish LGPS sector in having our own FCA authorised asset management firm. We established a regulated investment vehicle in 2015 which provides investment advisory, deal execution and portfolio management services to the group and certain external partner LGPS funds.

In March 2017, we became the first UK Local Government pension fund awarded accreditation for the Pensions Administration Standards Association and have retained this accreditation along with the Customer Service Excellence Award for over 10 years.

The day-to-day running of LPF is carried out by a specialist team who undertake pension administration, accounting and investment functions.

Our comprehensive website provides easy access to all relevant pension information at www.lpf.org.uk. This includes our Annual Report and Accounts of the Fund, Statement of Investment Principles, Funding Strategy Statement, Pensions Administration Strategy and Pensions Discretions Policy.

COLLEAGUE PROFILE **ANDREW DUFFY, DATA ANALYST**

Andrew joined LPF in June of 2020 as a Trainee Pensions Administrator and started his current role as a Data Analyst in January of this year. Andrew helps to maintain and improve the quality of LPF's data as well as making sure the information we receive from employers every monthly is accurate.

"My role is challenging and interesting and I enjoy having the opportunity to explore improvements to our processes and data collection. I really like the people and culture at LPF. Having friendly and supportive colleagues make for a very pleasant working environment."

GOVERNANCE AND RISK

The Pensions Committee and Pensions Audit Sub-Committee

All LPF and SHPF matters are overseen by the Pensions Committee, supported by the Audit Sub-Committee, and its members act in a 'quasi trustee' capacity for the two funds.

The Pensions Committee normally holds four meetings and the Audit Sub-Committee usually holds three meetings per year. LPF's governance structures continued to operate as designed, and meetings of the Committees and Pensions Board operate via a hybrid model with some members attending in person and others dialing in remotely via Teams.

The table below shows the Committee members for the year 2022/23:

COMMITTEE MEMBERS FROM 1 APRIL 2022 - 31 MARCH 2023

PENSIONS COMMITTEE	PENSIONS AUDIT SUB-COMMITTEE
Councillor Mandy Watt (Convenor) (from 30 June 2022)	
John Anzani (Member representative)	John Anzani (Member representative) (Convenor from 29 June 2022)
Councillor Phil Doggart (from 19 May 2022)	Councillor Phil Doggart (from 29 June 2022)
Councillor Neil Ross	Councillor Neil Ross
Councillor Steve Burgess	
Councillor Vicky Nicolson (from 25 August 2022)	
Richard Lamont (Employer representative, VisitScotland)	
Councillor Rob Munn (Convenor) (until 5 May 2022)	
Councillor Cameron Rose (until 5 May 2022)	Councillor Cameron Rose (Convenor) (until 5 May 2022)
Councillor Maureen Child (until 5 May 2022)	Councillor Maureen Child (until 5 May 2022)
Councillor Marco Biagi (from 19 May 2022 to 25 August 2022)	

GOVERNANCE AND RISK

The Pension Board

The Pension Board was established on 1 April 2015 as set out in the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014.

The role of the Pension Board is to help ensure that the operation of LPF is in accordance with the applicable law and regulations. The Board attend all Pensions Committee meetings and two representatives also attend the Pensions Audit Sub-Committee meetings.

The membership comprises ten members, four representatives appointed from the employer bodies and five representatives appointed by trade unions for the membership of LPF. The Pension Board membership for 2022/23 is shown in the table below. There was one vacancy as of 31 March 2023.

MEMBER REPRESENTATIVES

Jim Anderson	Unison (Chair)
Thomas Carr Pollock	GMB
Brian Robertson	Unite
Thomas Howorth	Unison
Tony Beecher	Unite

EMPLOYER REPRESENTATIVES

Sharon Dalli	Police Scotland
Darren May	Scottish Water
Nick Chapman	Lothian Valuation Joint Board
Vacancy as of 31 March 2023	

The Committee and Board members must attend no less than 21 hours of training per year as outlined in LPF's training policy which is available on our website at www.lpf.org.uk.

All new members of the Pensions Committee and Pension Board attend induction training. Other training provided internally covered topics including investment strategy, governance and responsible investment.

Committee and Board representatives also attended external conferences virtually and in person, including the LGPS Seminar Scotland, as well as a variety of Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and Hymans Robertson webinars.

All the Pension Committee and Pension Board members achieved the required training hours during 2022/23 with the exception of one member. Pensions Committee members have collectively attended 179 hours of training as at 31 March 2023 and members of the Pension Board undertook 262 training hours.

GOVERNANCE AND RISK

Scheme Advisory Board (SAB)

The Scheme Advisory Board for the Local Government Pension Scheme in Scotland was set up following the Public Service Pensions Act 2013. The Board's main function is to advise Scottish Ministers, when requested, on the desirability of changes to the Scheme. They can also provide advice to scheme managers and pension boards in relation to effective and efficient administration and management of the Scheme in Scotland.

The membership of the Scheme Advisory Board comprises seven representatives each from member and employers with a Joint Secretary to support each group, and included Councillor Cameron Rose until May 2022, and Councillor Mandy Watt from August 2022. Brian Robertson, one of the trade union representatives on LPF's Pension Board was the chair, then vice chair of the SAB during the year. There's more information on the Scheme Advisory Board at www.lgpsab.scot.

LOTHIAN PENSION FUND

GOVERNANCE AND RISK

LPFE and LPFI Boards

LPF colleagues are employed by an arms-length company, LPFE Limited (LPFE), which is wholly owned by the Council (in its capacity as administering authority for LPF). It's supervised by a Board of Directors, chaired by the City of Edinburgh's Service Director: Finance and Procurement and includes the Convenor of the Pensions Committee. Our team carry out certain activities through our Financial Conduct Authority authorised vehicle, LPFI Limited (LPFI).

LPFI is also wholly owned by the Council (in its capacity as administering authority for LPF) and is supervised by a Board of Directors chaired by the Council's Service Director: Finance and Procurement. Both the Boards of LPFI and LPFE comprise two independent Non-Executive Directors, Leslie Robb and Andy Marchant.

All the operations, costs and liabilities in relation to LPF, including those of LPFE and LPFI, are borne by LPF.

The day-to-day running of LPF is carried out by a specialist investment and pensions team. Our functions include investments, finance and operations, people and communications, Information and Communication Technology (ICT) oversight and governance, legal, risk, and compliance.

Our investment responsibilities include carrying out in-house investment management and the monitoring and selection of external investment managers, as well as external facing collaborative initiatives with other like-minded pension funds.

MEMBERSHIP OF LPFI AND LPFE BOARD OF DIRECTORS IN 2022/23

LPFE Ltd	LPFI Ltd
Hugh Dunn, CEC, Service Director: Finance and Procurement	Hugh Dunn, CEC, Service Director: Finance and Procurement (Chair)
Leslie Robb, Non-Executive Director	Leslie Robb, Non-Executive Director
Andy Marchant, Non-Executive Director	Andy Marchant Non-Executive Director
Councillor Mandy Watt, Convenor of the Pensions Committee (from 30 August 2022)	John Burns, LPF, Chief Finance Officer
David Vallery, LPF Chief Executive Officer	Bruce Miller, LPF, Chief Investment Officer
Katy Miller, CEC, Head of HR (until 4 November 2022)	David Vallery, LPF, Chief Executive Officer
Councillor Rob Munn, Convenor of the Pensions Committee (until 5 May 2022)	Kerry Thirkell, LPF, Chief Risk Officer (from 16 September 2022)
Struan Fairbairn, LPF, Chief Risk Officer (Company Secretary) (until 15 September 2022)	Struan Fairbairn, LPF, Chief Risk Officer) (until 15 September 2022)

GOVERNANCE AND RISK

Joint Investment Strategy Panel

Investment strategy guidance is provided by the same Joint Investment Strategy Panel (JISP) that advises the Falkirk Council and Fife Council Pension Funds. The membership of the panel includes two senior investment professionals from LPFI including the Chief Investment Officer and two external independent advisers.

The Pensions Committee of each pension fund agrees their own investment strategy but delegates the implementation of the strategy, including selection of investment managers, to officers.

The JISP advises the three pension fund administering authorities on implementation of their respective investment strategies. The assets of Lothian Pension Fund, Falkirk Council Pension Fund and Fife Council Pension Fund remain separate, including the Scottish Homes Pension Fund being separate to Lothian Pension Fund.

From 1 April 2022 to 31 March 2023 JISP met quarterly. The table below sets out the panel's membership.

JOINT INVESTMENT STRATEGY PANEL

Bruce Miller	Chief Investment Officer (LPFI)
Stewart Piotrowicz	Portfolio Manager (LPFI)
Kirstie MacGillivray	External Advisor
Stan Pearson	External Advisor

A nominated officer from Lothian Pension Fund, Falkirk Pension Fund and Fife Pension Fund attend each meeting of the panel.

GOVERNANCE AND RISK

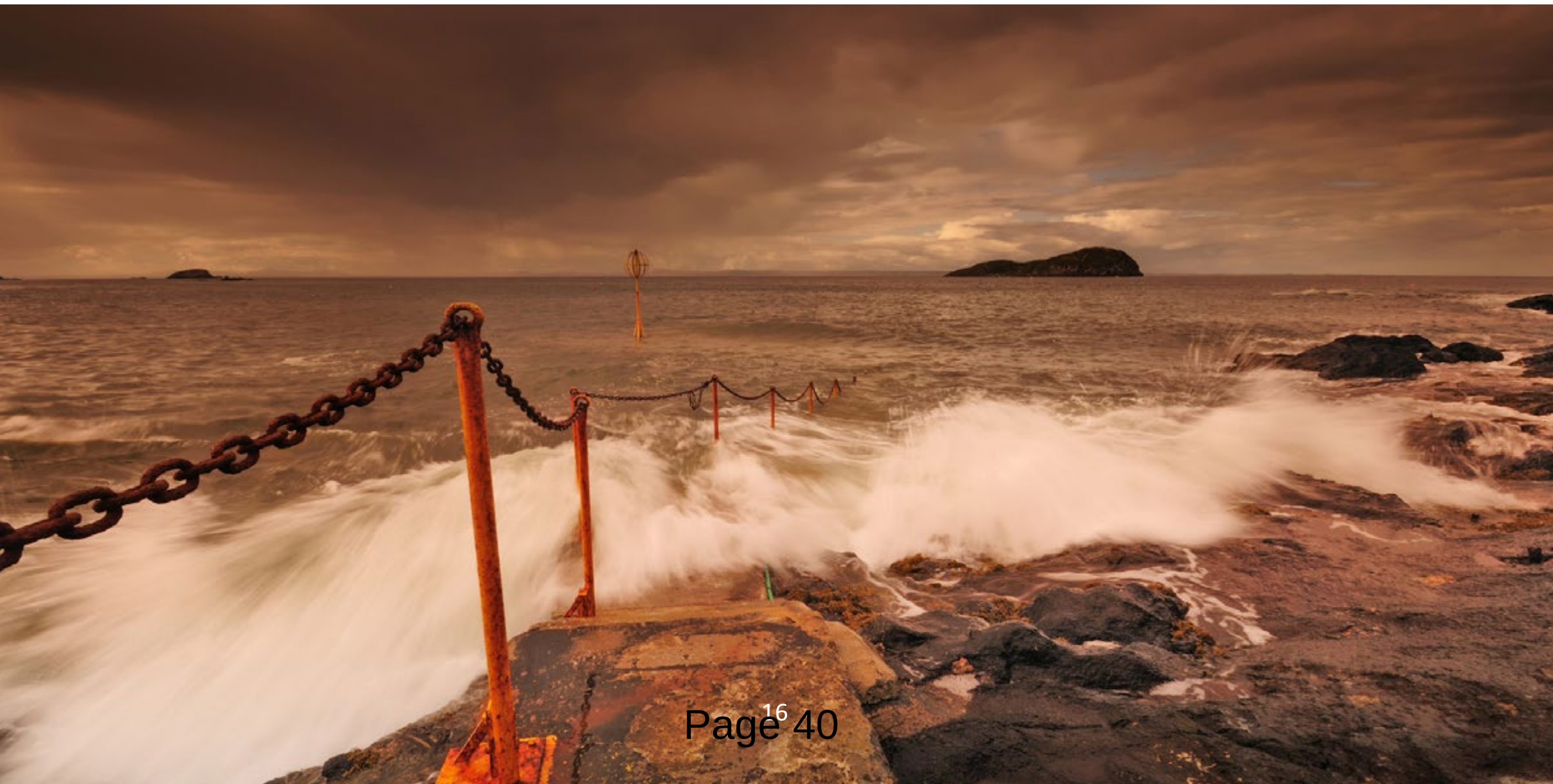
The Senior Leadership Team (SLT) of Lothian Pension Fund as at 31 March 2023 comprised:

- 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
- Karlyn Sokoluk, Chief Operations Officer

Risk Management

LPF has a risk management framework in place across its business functions and group entities including a toolkit and methodology for identifying, assessing, evaluating, monitoring and reporting risks and controls. This helps to ensure that we're able to operate and demonstrate an appropriate and effective control environment which continues to facilitate and support LPF's forward looking business strategy and objectives.

Our risk register is formally considered by the Risk Management Group quarterly but is also updated on an ad hoc basis where required. The Risk Management Group oversees the implementation and ongoing effectiveness of LPF's risk management framework, and comprises senior officers of each function within the group, as well as the Senior Leadership Team (SLT).



GOVERNANCE AND RISK

Risk analysis and reporting is provided to the Pensions Committee and Audit Sub-Committee on a quarterly basis. In addition, the full risk register is circulated to the convenors of the Pensions Committee and Audit Sub-Committee, Chair of the Pension Board and Independent Professional Observer each quarter.

At the last Risk Management Group meeting held within the reporting period, the most significant risks, together with the key controls and mitigants managing the risk, are summarised below:

Regulatory Risk
The risk of being unable to meet regulatory obligations is managed through a combination of oversight activities, compliance procedures and policies, staff training, regulatory horizon scanning and continuous improvement.

Cyber Risk
The risk that cybersecurity protections and/or back-up are insufficient to prevent or minimise attacks and disruptions, is managed through a comprehensive suite of technical security controls, complimented by an ongoing programme of training and communications, and phishing tests.

Projects & Change
The risk that project and change activities aren't effectively managed and don't deliver expected objectives is managed through a project and change framework and supporting methodology, with regular governance and oversight through a formal senior management forum.

Governance
The risk that the group structure and governance arrangements aren't operating compliantly or effectively and with proper authority is managed through secretarial activities that include meeting and training scheduling for board and committee members, governance portal providing access to relevant material, provision of training to relevant stakeholders, appointment of Non Executive Directors on corporate boards, and documented delegations.

Third Party Suppliers
The risk that sub-optimal service delivery and oversight of third party suppliers leads to disruptions or errors is managed through a supplier management framework and procurement processes.

Resource
The risk that staff resource is insufficient to carry our core tasks is managed through regular review of headcount, structure and resource, with review and approval of organisational plans, succession plans and recruitment.

GOVERNANCE AND RISK

As LPFI is regulated by the FCA, it's subject to the requirements of the Investment Firm Prudential Regime ('IFPR'), and must ensure that it remains viable throughout the economic cycle, can address any harm from its ongoing activities, and that it can wind-down in an orderly manner. This means holding a minimum level of financial resources, and regularly assessing how much should be held. To facilitate this, an Internal Capital Adequacy and Risk Assessment (ICARA) process is required to be undertaken and regularly reviewed to ensure internal systems and controls are operating to monitor and reduce potential harms. The ICARA and the risk management framework need to be integrated to ensure all material relevant risks have been identified, articulated and assessed to ensure that risks of harm can be properly considered and accounted for. The LPFI board has oversight of this process.

3 Lines of Defence

A 3 Lines of Defence model helps underpin the integrity of the risk management framework:

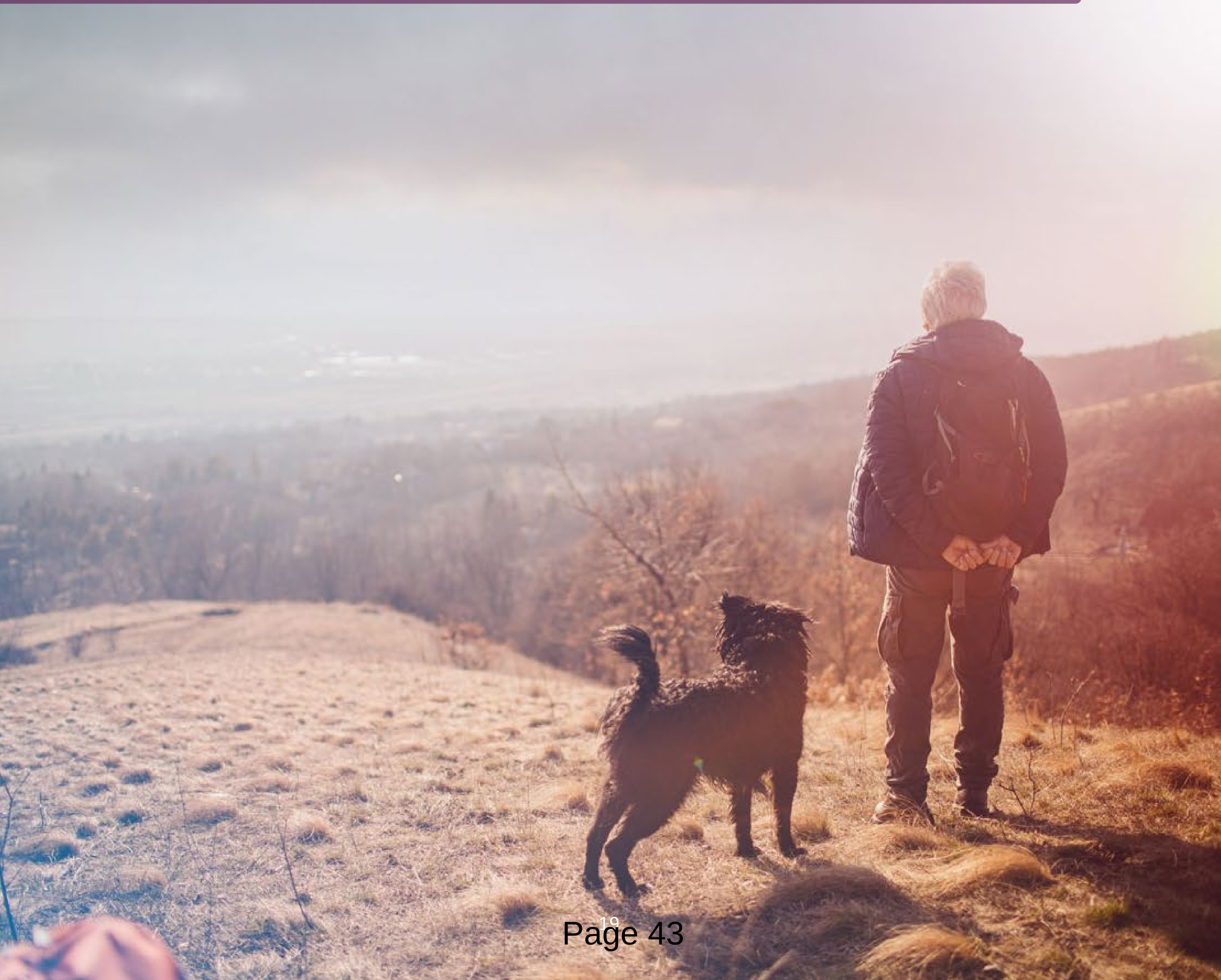
1. **Line 1:** business management responsible for identifying and managing risk and ensuring its activities are compliant with legal, regulatory, and organisational requirements

2. **Line 2:** Risk & Compliance function support the business in managing risks and achieving compliance, monitoring risk and compliance levels in the business and reporting on risk and compliance matters to management and governance forums

3. **Line 3:** independent oversight by Internal Audit providing independent assurance on the control framework and quality of implementation.

OUTSTANDING SERVICE

'Your care and consideration in helping me to transfer my father's pension helped us greatly at a difficult time.'



INVESTMENT

Investment markets

For the 12 months to 31 March 2023, global equities, as measured by the MSCI ACWI index, returned -1.4% in sterling terms (source: MSCI). However, the weaker pound masked a more pronounced decline of -7.4% in US dollar terms (source: MSCI). It was a year almost as extraordinary as 2020, when Covid emerged, and returns for most asset classes were curtailed by the challenging conditions.

Soaring inflation and central banks' policy responses dominated the backdrop for financial markets. The mounting pace of inflation was worsened by the supply shock brought about by the war in Ukraine, with UK consumer price inflation reaching 40-year highs. The reaction from most major central banks was to aggressively tighten monetary policy, marking a dramatic shift from the extremely low interest rates that had been in place since the financial crisis of 2008. This is an environment that many had become unaccustomed to and the unfamiliar conditions exposed frailties in the financial system, contributing in some part to the LDI crisis in the UK and the failure of two large US banks.

Government bond prices fell over the year, due to rising base rates and higher inflation, with the political crisis in the UK causing forced sales of long-dated gilts by some pension funds. 10-year gilt yields rose from 1.61% to 3.49% (reaching as high as 4.6%), giving an annual return of -10.9%. Although corporate bond credit spreads (the difference in yields between bonds of differing quality) widened over the year, it was the sharp rise in underlying government bond yields that caused most of the damage, with sterling investment grade credit returning -10.2% over the year. Commercial real estate returns were also strained by falling capital values as property owners, many of which are highly leveraged, contended with rising borrowing costs. However, some of the most eye-catching falls were among 'growth' stocks where valuations were severely marked down as sentiment for this part of the market soured.

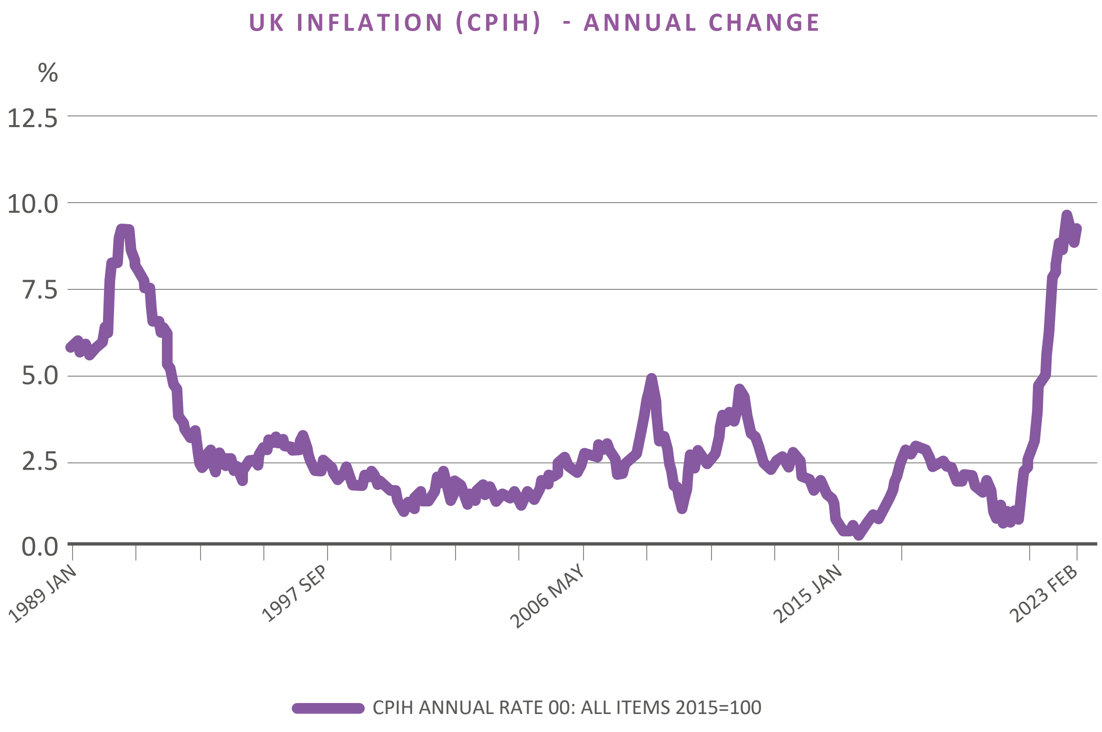
JOHN ANZANI

"This year the Audit Sub Committee has been engaged in assessing the effectiveness of LPFs audit, risk and compliance reporting. It has also taken steps to work closer with both the internal and external auditors. Effective oversight of internal and external auditors is key to the Audit Committee's ability do discharge its responsibilities in helping provide a clear understanding of the fund and ensuring that the internal audit plan is aligned to the key risks faced by the fund. The Committee reaffirmed its satisfaction that the fund operates within reasonable risk boundaries. It welcomes the evolving process that LPF's management team are implementing to ensure challenge and continuous improvement. In the future the Audit Sub Committee looks forward to working with LPF's auditors and management team to ensure that our risk and compliance monitoring programmes continue to meet the high expectations and standards of LPF."

Convenor of the Audit Sub Committee in 2022/23

INVESTMENT

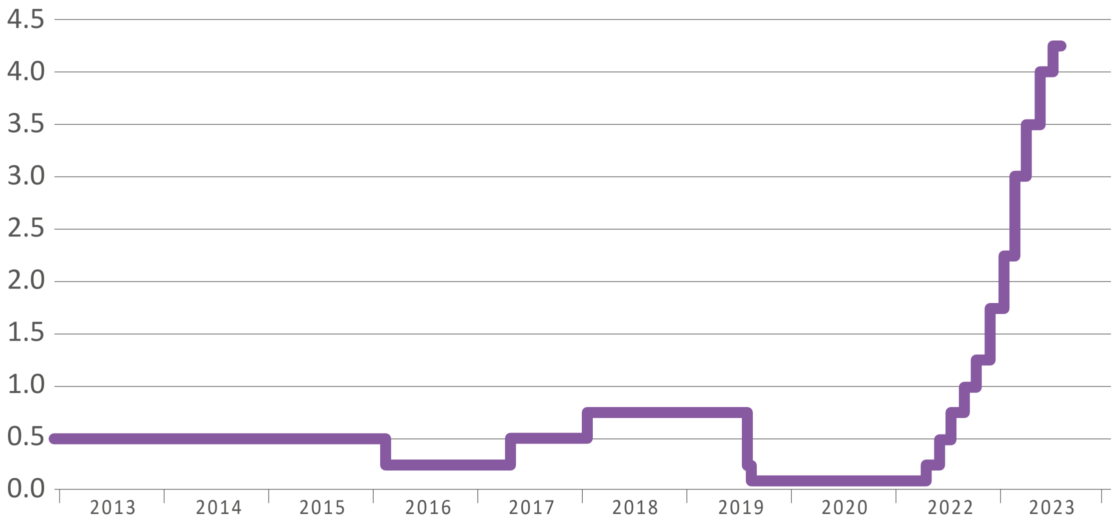
Inflation's influence over investment markets appears set to continue with disinflation to pre-pandemic levels likely to take some time. However, there's cause to believe that inflation has already peaked amid moderating commodity prices and the cooling effect of monetary policy. With that, central banks appear to be nearing the peak of this tightening cycle which may signal a more favourable backdrop ahead for asset valuations. However, risk remains around whether inflation proves to be 'stickier' than hoped. Expectations for corporate earnings have held up well to date, though those forecasts may prove overly optimistic as economic growth deteriorates in the face of the tight monetary policy, declining real wages and heightened geopolitical tensions. Meanwhile, fiscal policy is handicapped by high debt burdens and costlier borrowing, as demonstrated by the rapid unwinding of the Truss government's plans. More positively, the recent reversal of China's 'zero-Covid' policy provides a welcome boost for growth. With several meaningful macroeconomic and geopolitical challenges to be navigated, it's hard to imagine that there won't be further significant financial market volatility in the coming years.



Source: https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23

INVESTMENT

BANK OF ENGLAND OFFICIAL RATE



Source: https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp

HUGH DUNN

"Over the last year, LPFI Ltd and LPFE Ltd, continued to focus on delivering key strategic aims and service improvements to support LPF. LPFE and LPFI are key in LPF's success in supporting thousands of scheme members. LPFE enables us to recruit and retain the best possible colleagues. This year LPFE welcomed 26 new colleagues including a new Chief Risk Officer and appointed a Chief Operating Officer for the first time. They join our existing skilled and member focussed teams. Meanwhile, LPFI facilitates us to have an efficient and cost effective investment service which supports our collaboration with other local government pension schemes. This year, LPFI's investment management service increased its assets under management to £1.4billion over the course of the year.

I have announced my intention to retire in September 2023 and I'm delighted to have had the opportunity to contribute to LPFI and LPFE's development, seeing both companies flourish and evolve over the last 7 years. I would like to thank everyone for their commitment and work on behalf of members. It has been a pleasure to work with you all in support of the members and employers of LPF."

Chair of LPFI and LPFE Boards, and CEC Service Director: Finance and Procurement


LOTHIAN
PENSION FUND
RESPONSIBLE INVESTMENT
'We recently joined Advance, an initiative focussed on human rights and social issues for workers, communities and society.'

RESPONSIBLE INVESTMENT

Our investment principles

Responsible Investment is a core part of our investment policy and we always operate within the policy, legal and regulatory frameworks that apply to us. We invest in the interests of our beneficiaries and employers and our fiduciary duty requires us to act in a financially prudent manner, taking Environmental, Social and Governance (ESG) factors into consideration in the context of the financial risk that arises from the investment.

As an asset owner in the public sector, striving for high standards of transparency within the constraints of commercial sensitivities, we're understandably subject to considerable scrutiny of our investments. To assist our many stakeholders to better understand the philosophy behind our overall approach to Responsible Investment, we publish our Statement of Responsible Investment Principles (SRIP). In this document, which is reviewed and updated annually, we set out how we undertake investment in a responsible manner, detailed on an asset class by asset class basis, to achieve our stewardship aims.

WHAT OUR MEMBERS SAY:

"Staff are very helpful on the phone as I am not confident using online."

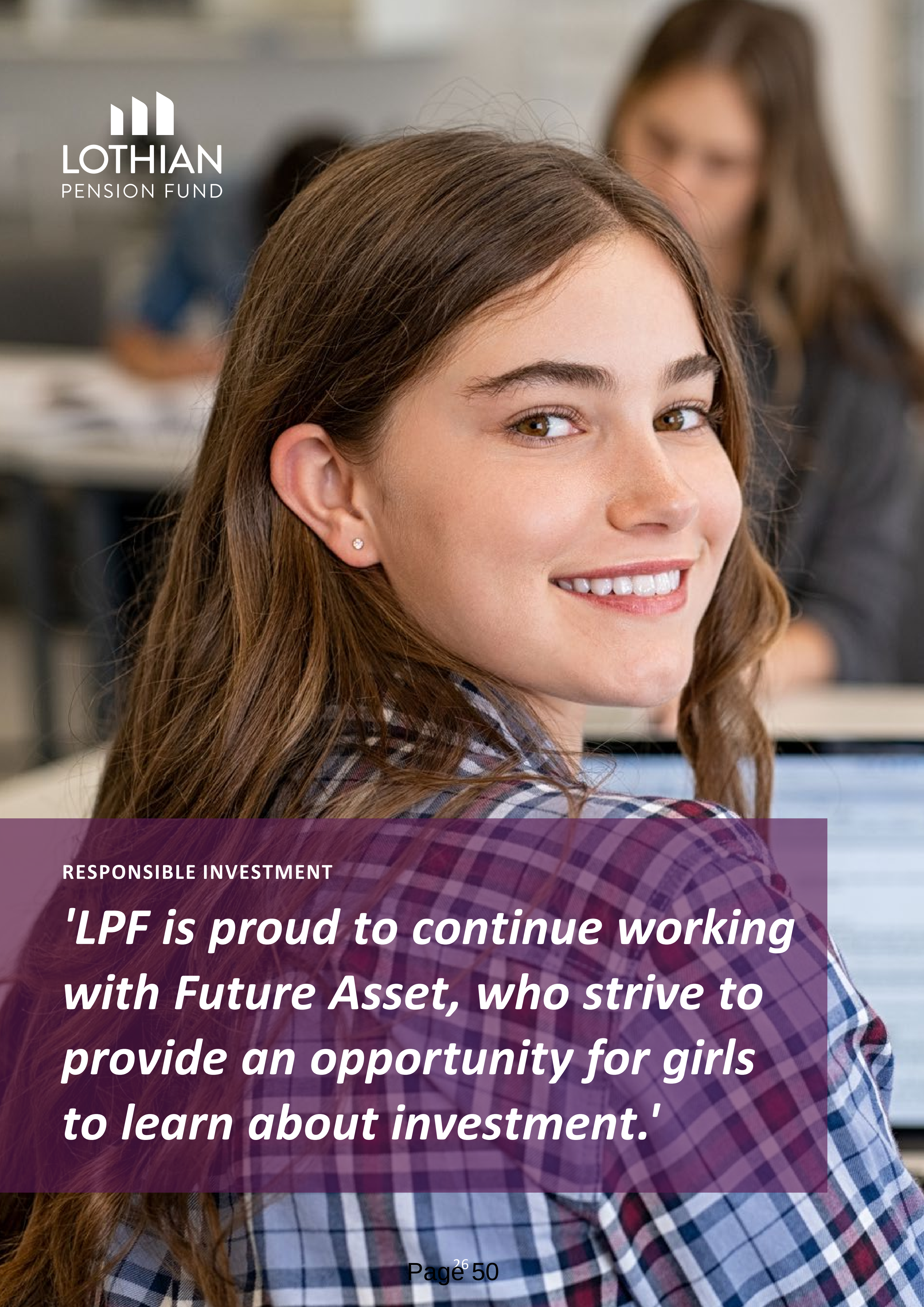
RESPONSIBLE INVESTMENT

Responsible Investment (RI) and Stewardship Reporting

We produce an annual Stewardship Report which contains a wealth of detail and examples on the implementation of our RI policies. Our most recent Stewardship Report was published in October 2022 covering the year to 31 December 2021. It was assessed by the Financial Reporting Council, confirming our continued status as a signatory to the stringent UK Stewardship Code 2020.

Our Stewardship Report explains the core activities that we undertake, both individually as a fund, and collectively with like-minded organisations. These actions include voting on the resolutions of the companies in which we're invested and engaging with a high percentage of them, often through our engagement partners, to drive positive change in corporate behaviour and mitigate investment risk. We employ an engagement partner, currently Federated Hermes EOS, and work with other organisations, such as Climate Action 100+ and the PRI (Principles for Responsible Investment), to promote responsible investing.

As a provider of responsible capital, we believe LPF should be an agent for positive change. Our *ENGAGE* e-zine provides insight into our investment activities; from providing examples of where ESG considerations have impacted our investment decision-making, to celebrating award-winning environmental initiatives.



LOTHIAN PENSION FUND

RESPONSIBLE INVESTMENT

'LPF is proud to continue working with Future Asset, who strive to provide an opportunity for girls to learn about investment.'

RESPONSIBLE INVESTMENT

Climate change

As of February 2023, 195 members of the United Nations Framework Convention on Climate Change are parties to the Paris Agreement. The three key aims of the Paris Agreement are:

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that doesn't threaten food production
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development.

Separate to this, but part of the overall worldwide change in attitude towards greenhouse gas emissions, the Financial Stability Board (FSB) of the Bank of England launched the Taskforce on Climate-Related Financial Disclosures (TCFD). TCFD aims to: "develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders." Further information is available at www.fsb-tcfd.org.

As asset owners, we've been engaging with the companies in our portfolios to enhance disclosures on emissions in line with the recommendations of TCFD, as well as working alongside peer organisations to promote the aims of the TCFD and reporting our approach to climate change-related risks and opportunities.

As part of the TCFD resources, investors and asset owners also have guidance on how to report their approach to climate-related risks and opportunities. These recommendations are split into four key areas of reporting.

- **Governance** relates to the organisation's governance and climate-related risks and opportunities
- **Strategy** relates to the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning
- **Risk management** relates to the processes used by the organisation to identify, assess and manage climate-related risks
- **Metrics and Targets** relates to metrics and targets used to assess and manage relevant climate-related risks and opportunities.

We engage with companies to encourage them to improve their disclosure to support us in integrating climate change risk and opportunities into the risk management and governance at LPF. Over the last few years, we've undertaken substantial work on the issue, as detailed in our Stewardship Report.

RESPONSIBLE INVESTMENT

Climate change – governance

The Pensions Committee's approach to climate change risks is encapsulated in the Statement of Responsible Investment Principles.

The Committee and Board considers climate-related issues as part of its annual review of our approach to Stewardship. Climate-related risks and opportunities are an integral part of our overall investment process. The Pensions Committee is responsible for setting investment strategy and delegates implementation of strategy to officers taking advice from the Joint Investment Strategy Panel and working with investment managers. Climate-related risk management is reviewed as part of the regular monitoring process for all investment mandates and includes scrutiny of how ESG analysis is integrated into investment decision-making.

RESPONSIBLE INVESTMENT

Climate change – strategy and risk management

We recognise the outsized impact that some specific sectors and industrial activities have on climate change by virtue of the magnitude of their greenhouse gas emissions. While many prefer to label companies in carbon intensive industries as 'bad' and those in low-carbon and alternative energy businesses as 'good', history shows that firms need to reinvent themselves to survive. LPF strives to influence and support positive changes by corporate leaders to achieve sustainability for their firms and for society. Consequently, we have a policy of engagement rather than blanket divestment, which allows us to exert influence on companies to improve their business practices, align with the Paris goals, and disclose internal climate-related risk and opportunity management with TCFD compliant reporting.

Our approach to engagement relies heavily on our engagement and voting partner, EOS at Federated Hermes (EOS). EOS engages with companies on a range of engagement issues, including climate change. The internal team also engages with company management on a regular basis as part of company meetings and investment conferences. Details on our engagement and voting activity is provided in our annual Stewardship Report.

In addition, we're a member of the Institutional Investors Group on Climate Change and of the Climate Action 100+ investor initiative. We actively participate as a co-lead in engagement with one of the 166 target companies in the initiative's list of systemically important carbon emitters.

Regular training and development for all colleagues on climate related issues is provided. This includes governance functions, management, investment decisions makers, and pensions administration colleagues. This creates an internal culture that's serious about the risks to capital posed by the low carbon transition, as well as the physical risks of climate change.

The Fund's investments can be broadly classified as follows: fundamentally managed equity; quantitatively managed equity; passively managed government debt; directly owned commercial property and externally managed funds (covering all asset classes). As part of the stock selection process for the fundamentally managed portfolios, any fundamentally material climate-related risks and opportunities (such as carbon pricing and the low carbon transition) are individually assessed and monitored by the managers. The quantitative portfolios are monitored for material risks arising from ESG issues on a regular basis. Both the fundamental and quantitively managed equity funds utilise engagement to improve business practices. The selection and monitoring process for

RESPONSIBLE INVESTMENT

external managers incorporates ESG assessments, which continue to be refined as the industry evolves.

Our internal managers continue to monitor opportunities in the green energy and future technology space, both in the public and private markets. Much of the current investment in green energy is being undertaken by the incumbent energy providers (the diversification of carbon-extractive companies and carbon burning utilities).

With a research budget specifically allocated to data services targeting ESG and climate-related risks and opportunities, we produce an annual carbon footprint for listed equities and corporate bonds. This measures the weighted average carbon intensity of the portfolio as a whole. More importantly, it allows us to identify important factors, such as high carbon emissions, to guide our company engagements and forward-looking analysis of the risks to the Fund's invested capital from the low carbon transition.

While it's widely acknowledged that climate change is one of the great issues facing society, it's one of several risks that we must mitigate. In that sense, it's no different to any other risk. We believe in a holistic, integrated approach to analysis taking all risks, including climate-related risk, into consideration.

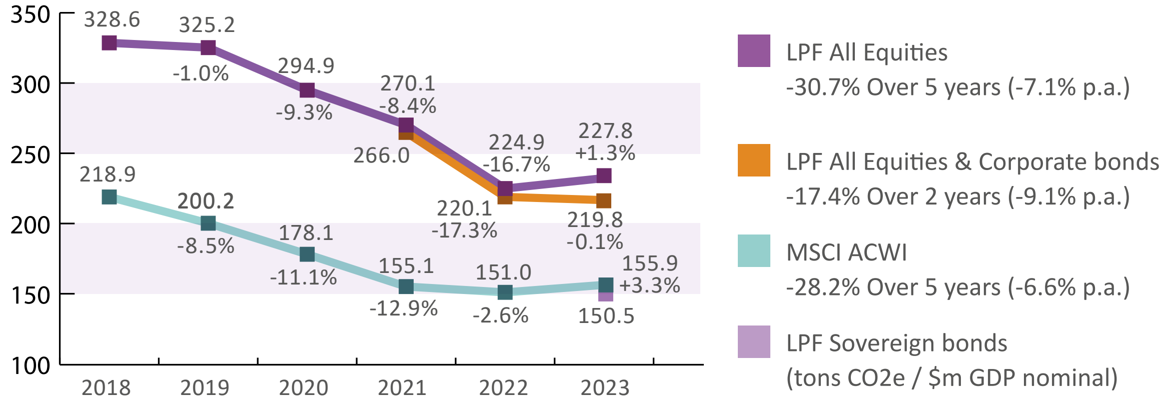
Climate change – monitoring and metrics

The Pensions Committee and Pension Board review ESG (including climate related) issues at least annually as part of oversight of the stewardship of Fund assets. Officers and the Joint Investment Strategy Panel of advisers monitor investment mandates and individual investments at least quarterly.

In-line with TCFD best practice, we've reported a measure of carbon efficiency since 2018: WACI is the Weighted Average Carbon Intensity, with units of tons CO2/$M sales. We use this carbon efficiency measure as it allows us to look on a granular basis at how well a company is managing its emissions, rather than simply what its absolute emissions are. By looking at companies with similar activities, it's possible to use this metric to separate those companies with good practices from those with bad practices. We calculate the portfolio WACI by weighting these intensities according to the portfolio position sizes and adding all the weighted intensities to give a figure for the portfolio and the index. In practice, however, investment managers use a variety of data on individual companies to assess prospects rather than a single carbon metric.

WACI (TONS CO2e / $m SALES)

Source: MSCI



RESPONSIBLE INVESTMENT

Under the Greenhouse Gas (GHG) Protocol:

- Scope 1 emissions are defined as direct GHG emissions that are controlled or owned by an organisation
- Scope 2 emissions are indirect GHG emissions that are the result of an organisation's energy use, such as electricity, steam, heat or cooling
- Scope 3 emissions are all other indirect emissions, such as from the production of purchased materials and fuels, supply-chain transport-related activities, outsourced activities, waste disposal, customers' emissions when using or accessing the organisation’s products or services.

Our WACI figures are calculated based on Scope 1 and 2 carbon emissions. Advances in data and methodology, especially in the adoption of a new approach to standardised emissions counting pioneered by the Partnership for Carbon Accounting in Financials (PCAF) have enabled us to present combined data for our equity and corporate bond holdings since 2021. This year we’ve been able to also calculate the WACI for our sovereign bond investments. However as the sovereign bond WACI is calculated in a different way, it’s not meaningful to aggregate this with the corporate WACI calculated for our equity and corporate bond holdings. We have an ambition to keep expanding the coverage of our emissions reporting across all our assets as data becomes available (supported by external managers and using estimates if necessary) and present more granular emissions data by scope ahead of the deadline for enhanced TCFD reporting for the Scottish LGPS.

While we expect the average carbon intensity of our investments to decline over the longer term as the global economy decarbonises, this trend may be volatile year on year as we incorporate more emissions data and as the out performance of certain sectors can swing the annual snapshot in any one year.

RESPONSIBLE INVESTMENT

Carbon intensity numbers are currently treated as outputs of the investment process rather than targeted inputs into the investment process. This is because these numbers are fundamentally easy to “game”. Our reported portfolio level carbon intensity numbers could easily be brought down by selling the most carbon intensive stocks and replacing those investments with lower emission stocks. While this might be considered “good” optically, companies will continue to emit carbon in the same manner whether LPF sells or retains the shares.

We firmly believe that global decarbonisation will provide benefits to society and the environment, and we therefore support efforts to reduce carbon emissions in the real economy. We do this by engaging (either directly or in collaboration with other investors) with companies and policy makers to encourage businesses to pivot towards a lower carbon future.

Paris alignment

As data from the Transition Pathway Initiative (TPI) and Carbon Action 100+ are developing and improving, it has become increasingly incorporated into our investment process. The TPI data showing Paris Alignment is an important forward-looking indicator for risk management purposes.

Our involvement in Climate Action 100+ reinforces our belief that engaging with companies to help them pivot their businesses towards a lower carbon future is a far more responsible approach than simply divesting or excluding all stocks in high exposure sectors. We’ll continue to engage with our holdings rather than setting specific carbon intensity targets for our overall portfolio.

We’re also engaging with our external managers to better understand their approach to aligning the investments they make on our behalf to a future net zero emissions world, and to encourage improved reporting of emissions data and other sustainability metrics.

Global Real Estate Sustainability Benchmark (GRESB) data in the infrastructure and real estate asset classes is tracked and incorporated into reporting in these areas.

RESPONSIBLE INVESTMENT

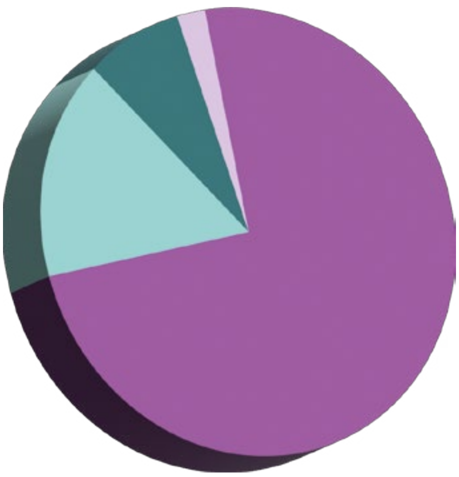
Climate solutions

We're also monitoring our investments in climate solutions. These are companies or assets that help the global economy achieve net zero. One of the clearest examples of climate solutions is our investments in renewable energy projects through our infrastructure portfolio.

Infrastructure investments represented 13.4% of the value of Lothian Pension Fund assets at 31 March 2023, comprising one of the largest and most diversified allocations among UK LGPS funds. Of the total infrastructure portfolio, the majority is invested in the UK, and around a quarter of the portfolio is invested in renewables. During 2022/23, Lothian Pension Fund invested over £100m in renewable energy projects.

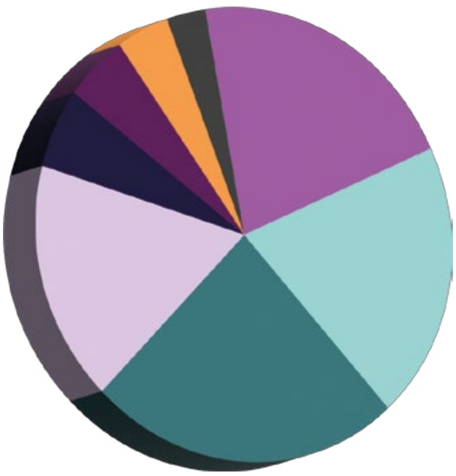
The geographic and sector diversification for Lothian Pension Fund infrastructure (as a percentage of infrastructure asset value of £1.3bn) is shown in the charts below.

GEOGRAPHY



UK **74%**
EU ex UK **17%**
N. America **8%**
Rest of World **1%**

SECTOR



Social **21%**
Transport **19%**
Renewables **23%**
Utilities **16%**
Environmental Services **7%**
Energy & Water **6%**
Data Infrastructure **5%**
Others **3%**

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement was fully revised at the 2020 Actuarial Valuation and reflects CIPFA guidance: “Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016”. Amendments were made in 2022 following amendments to scheme regulations.

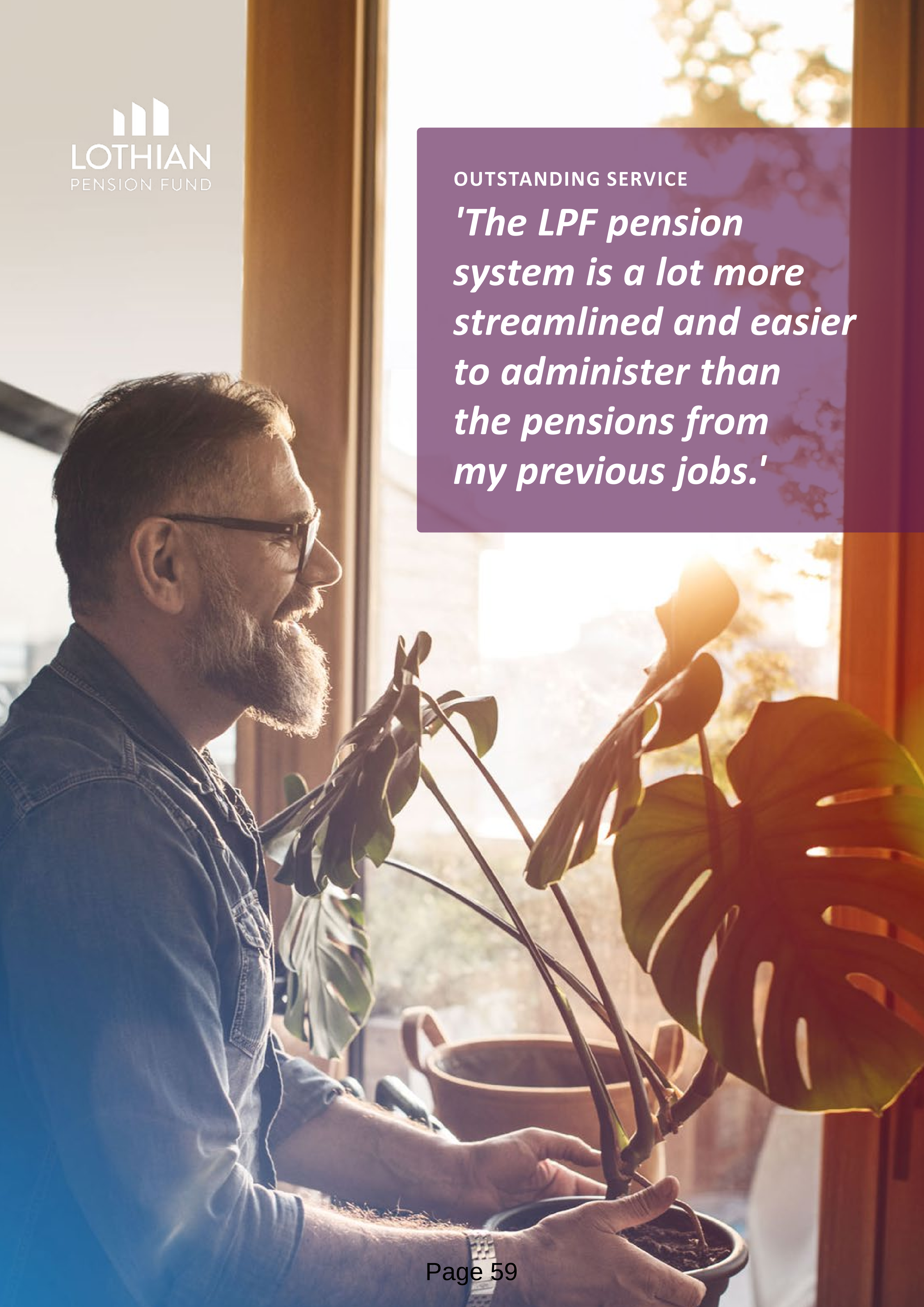
The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy), or asset returns (derived from the investment strategy). A formal review of the Fund’s investment strategies is undertaken at least every three years to ensure appropriate alignment with liabilities. Further information on the investment strategies can be found in LPF's Statement of Investment Principles also available at www.lpf.org.uk.

The next triennial valuation for both funds will be undertaken as at 31 March 2023.

Full reviews of both the Funding Strategy Statement and the investment strategies will be carried out as part of this process.

WHAT OUR MEMBERS SAY:

"From start to finish you have been fabulous, as I have friends with terrible experiences. So, for me, I could not say how you could make anything better, so thanks."



LOTHIAN
PENSION FUND

OUTSTANDING SERVICE

'The LPF pension system is a lot more streamlined and easier to administer than the pensions from my previous jobs.'

FINANCIAL PERFORMANCE

Administration expenses

A summary of the Fund's administrative expenditure for 2022/23, against the budget approved by the Pensions Committee, is shown in the table below.

The budget focuses on controllable expenditures, so excludes all benefit payments and transfers of pensions from the Fund. Similarly, income doesn't include contributions receivable and pension transfers to the Fund.The total net cost outturn of £38,376k against the budget of £34,550k represented an overspend of £3,826k (11.1%) for the Fund.

The most significant budget variances serving to generate this overspending were:

- **Investment managers fees – Uninvoiced – £4,757k overspend.** The reason for the Funds overspend against budget is due to its uninvoiced investment management costs, a majority of which relates to its private market investments. One off refurbishment and transaction costs for the Funds in-house direct property mandate was the contributing factor to the variance against budget

- **Investment managers fees - Invoiced – £600k underspend.** Invoicing based for externally managed mandates based on market value. A £50m divestment from one of these mandates and below forecasted market values have resulted in an underspend for the year

- **Supplies and Services – £228k underspend.** Underspending occurred against budget for investment systems, in particular the delay in the scheduled upgrade to the Fund's front office system

- **Other third-party payments– £186k underspend.** Underspend occurred in a variety of areas including custody services, broken deal provision and project costs

- **Capital funding - depreciation– £29k overspend.** A decision was taken during the year to write off the Atria refurbishment costs over 2022/23-2023/24 financial year with potential office move taking place

- **Income – £258k under-recovery.** Income in relation to collaborative partners is based on a cost sharing mechanism. Due to underspend against budget, in particular staff costs, as well as the lower than expected deal flow in relation to collaborative investments, income was below budget.

FINANCIAL PERFORMANCE

	Approved budget	Actual outturn	Variance
	£000	£000	£000
Employees	7,126	6,930	(196)
Transport and premises	278	272	(6)
Supplies and services	2,396	2,168	(228)
Investment managers fees - invoiced*	4,000	3,400	(600)
Investment managers fees - uninvoiced*	20,725	25,482	4,757
Other third-party payments	1,727	1,541	(186)
Capital funding - depreciation	257	286	29
Direct Expenditure	**36,509**	**40,079**	**3,570**
Support costs	620	618	(2)
Income	(2,579)	(2,321)	258
Total net controllable cost to LPF	**34,550**	**38,376**	**3,826**

**Does not include performance element. In 2022/23, £9.1m was paid in fees in relation to the Fund's private market investments.*

Reconciliation to total costs	Actual outturn
	£000
Actual outturn on budgeted items above	38,376
Securities lending revenue included in income above	536
Investment management fees deducted from capital – performance related element	9,062
IAS19 LPFE retirement benefits	(8,364)
LPFE deferred tax on retirement benefits	1,088
Corporation tax	38
Total cost to LPF (inclusive of full cost investment management fees)	**48,736**
Per Fund Accounts	
Lothian Pension Fund Group	40,683
Scottish Homes Pension Fund	53
Total	**40,736**

FINANCIAL PERFORMANCE

LOTHIAN PENSION FUND

Cashflow

Cashflow to and from a pension fund is very dependent on the profile of its membership. Specifically, a maturing membership, where the proportion of active to deferred and pensioner members is reducing, would be expected to see a reduction in contributions received, together with additional outlays on payments to pensioners.

The tables below show the projected cash flow, as reported to Pensions Committee on 23 March 2023, against the actual movement for the year. It's important to distinguish between the basis of preparation for these, with the projected figures prepared on a cash basis, i.e. from when cash is received by the Fund, compared to the accruals basis of the Financial Statements to reflect accounting standards.

	2022/23 Projected	2022/23 Accruals basis	2022/23 Cash Basis
Income	**£000**	**£000**	**£000**
Contributions from employers	210,500	201,867	201,504
Contributions from employees	55,000	57,383	57,067
Transfers from other schemes	7,000	6,551	6,551
	272,500	**265,801**	**265,122**
Expenditure			
Pension payments	(206,000)	(206,225)	(206,225)
Lump sum retirement payments	(66,000)	(62,030)	(60,752)
Refunds to members leaving service	(830)	(845)	(845)
Transfers to other schemes	(13,000)	(11,689)	(11,689)
Administrative expenses	(3,000)	(3,202)	(3,202)
	(288,830)	**(283,911)**	**(282,713)**
Net additions/(deductions) from dealings with members	**(16,330)**	**(18,190)**	**(17,591)**

FINANCIAL PERFORMANCE

Cashflow (cont.)

Lothian Pension Fund	Actual	Cash flow forecast									
	2022 /2023 £m	2023 /2024 £m	2024 /2025 £m	2025 /2026 £m	2026 /2027 £m	2027 /2028 £m	2028 /2029 £m	2029 /2030 £m	2030 /2031 £m	2031 /2032 £m	2032 /2033 £m
Pensions income	265.8	278.7	291.7	305.3	319.6	334.6	350.3	366.7	383.9	401.9	420.9
Pensions expenditure	(284.0)	(315.3)	(327.3)	(339.9)	(353.1)	(366.9)	(381.4)	(396.6)	(412.6)	(429.4)	(447.0)
Net pensions cash flow	**(18.2)**	**(36.6)**	**(35.6)**	**(34.6)**	**(33.5)**	**(32.3)**	**(31.1)**	**(29.9)**	**(28.7)**	**(27.5)**	**(26.1)**
Net investment income	**339.1**	**352.7**	**366.8**	**381.5**	**396.8**	**412.7**	**429.2**	**446.4**	**464.3**	**482.9**	**502.2**

The above figures are the estimated annual cash flow on pensions activity and investment income for the next ten years. The forecast is based on the 2022/23 actual cash flows (included for comparison) adjusted for actuarial assumptions.

Throughout the forecast period it's expected that investment income will provide multiple cover for negative net pensions cash flow, with no asset sales being required to fund on going pensioner payments.

SCOTTISH HOMES PENSION FUND

	2022/23 Projected	2022/23 Accruals basis	2022/23 Cash Basis
Income	**£000**	**£000**	**£000**
Administration charge	90	90	90
Expenditure			
Pension payments	(6,500)	(6,258)	(6,258)
Lump sum retirement payments	(750)	(773)	(783)
Transfers to other schemes	(100)	(17)	(17)
Administrative expenses	(90)	(55)	(55)
	(7,440)	**(7,103)**	**(7,113)**
Net additions/(deductions) from dealings with members	**(7,350)**	**(7,013)**	**(7,023)**

Scottish Homes Pension Fund is a mature fund with no active members. As a result, pension outlays are met from investment income, supplemented by asset sales. Net pension outlays were £7.1 million which is broadly in line with the prior year.

Membership statistics and funding statements from the Actuary are provided for both funds in the Fund Accounts sections.

FINANCIAL PERFORMANCE

Cashflow (cont.)

Scottish Homes Pension Fund	Actual	Cash flow forecast									
	2022 /2023 £m	2023 /2024 £m	2024 /2025 £m	2025 /2026 £m	2026 /2027 £m	2027 /2028 £m	2028 /2029 £m	2029 /2030 £m	2030 /2031 £m	2031 /2032 £m	2032 /2032 £m
Pensions income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions expenditure	(7.1)	(7.7)	(7.5)	(7.4)	(7.3)	(7.2)	(7.1)	(7.0)	(6.9)	(6.8)	(6.7)
Net pensions cash flow	**(7.1)**	**(7.7)**	**(7.5)**	**(7.4)**	**(7.3)**	**(7.2)**	**(7.1)**	**(7.0)**	**(6.9)**	**(6.8)**	**(6.7)**
Net investment income	**2.0**	**2.0**	**2.0**	**1.9**	**1.8**	**1.7**	**1.7**	**1.7**	**1.6**	**1.6**	**1.6**

The estimated annual cash flows for Scottish Homes Pension Fund is based on actuarial analysis of the fund's membership profile. Although investment income is below the annual pension outgoings, no asset sales are required to meet the shortfall. Instead the all gilt investment strategy incorporates these cash flow requirements, with redemption dates of gilts tying into the fund's liquidity needs.

2020 Actuarial valuations

The most recent triennial assessment of the funding position of the pension funds was undertaken by LPF's Actuary as at 31 March 2020. The valuation set employer contribution rates for the three year period from 1 April 2021. The Funding Strategy Statement was reviewed and amended following consultation with employers.

For Lothian Pension Fund, the funding level increased from 98% at 31 March 2017 to 106% at this valuation. The deficit of £145million at 31 March 2017 became a surplus of £408 million at 31 March 2020.

Lothian Pension Fund requires employers to provide written confirmation that minimum contribution rates set by the Actuary are affordable, as it's not in the best interests of the individual employers or the fund for employers to continue to accrue unaffordable pension liabilities. The fund continues to work with employers to put in place funding agreements to address repayment of debt when an employer leaves, to avoid employer default or insolvency.

The funding level for Scottish Homes Pension Fund at 31 March 2020 was 117.7%, increased from 104.7% from the 2017 actuarial valuation. Consultation was undertaken with the Scottish Government on the potential benefits offered by revising the Funding Agreement for this fund. However, it advised that it didn't want to revisit this and, as a result, the investments of the fund are now fully invested in UK government bonds and cash.

Work has commenced on the next triennial valuation for both funds which will be undertaken as at 31 March 2023. Results from this are expected in the final quarter of 2023.

FINANCIAL PERFORMANCE

Investment management cost transparency

Local authorities are required to account for pension funds in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council, where these provide additional guidance. Guidance is still awaited from CIPFA as to how these costs should be standardised and reported in the Annual Reports of LGPS Funds.

The Chartered Institute of Public Finance and Accountancy (CIPFA) published this guidance in July 2014, which promoted greater transparency of investment management fees. These principles were adopted as best practice in the presentation of the Lothian Pension Fund audited Annual Report 2015. In June 2016, CIPFA revised its guidance including the following: "Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the Fund Account."

The revised guidance changed the disclosure of fees for fund of funds investment arrangements. A 'fund of funds' is an investment holding a portfolio of other investment funds rather than investing directly in funds. Typically, fees are payable to the 'fund of funds' manager as well as to the managers of the underlying funds. Generally, under the revised guidance from CIPFA, the second and third layer of fees would not be disclosed with just the fees from the 'fund of funds' manager stated.

In the preparation of the Fund's Annual Report for 2014/15 and 2015/16, the Fund made efforts to be completely transparent on the totality of costs incurred for managing its investment assets. The Fund's disclosures included all layers of fees. At its meeting on 28 September 2016, the Pensions Committee instructed the Committee Clerk to communicate to CIPFA, Audit Scotland and the Scottish Local Government Pension Scheme Advisory Board (SLGPSAB), the Committee's and Convenor's disquiet with the relaxation of the principle of full cost transparency of investment management fees, as explicit in CIPFA's revised guidance "Accounting for Local Government Pension Scheme Management Costs".

COLLEAGUE PROFILE RACHELLE WONG, MEMBER ADMINISTRATOR

Rachelle joined us in June 2020 as a trainee. Rachelle helps with the day-to-day processing in general tasks and most recently has updated the refund procedure to let members claim their refund of contributions online.

"The team is very approachable and you can always find an answer to a question with the depth of knowledge the pension admin team holds. I also love the diversity in the role in our everyday tasks."

FINANCIAL PERFORMANCE

In May 2018, CIPFA published: "Proposals for LGPS Fund Reporting in a 'Pooled World.'" This sets out proposals for revised reporting for LGPS pension funds to meet several objectives, including:

- To further enhance reporting of costs reflecting the introduction of the LGPS SAB Code of Transparency for asset managers
- Initiatives underway by the Financial Conduct Authority (FCA) and Department for Work and Pensions (DWP) which aim to create more transparent and granular reporting standards for both providers and trustees

In March 2019, CIPFA published "Preparing the annual report – Guidance for Local Government Pension Scheme Funds (LGPS) 2019 Edition." The purpose of this guidance is to assist local government pension funds with the preparation and publication of the annual report required by Regulation 55 of The Local Government Pension Scheme (Scotland) Regulations 2018.

The Pensions and Lifetime Saving Association (PLSA) has also issued cost data templates to support its Cost Transparency Initiative. The aim of this initiative is to provide a standardised way for asset managers to report costs and charges to investors. Such further cost disclosure will be included within the notes to the financial statements.

The financial statements of Lothian Pension Fund and Scottish Homes Pension Fund continue to include full transparency for both funds' internal and external investment management fees.

COLLEAGUE PROFILE TOM COWIE, SENIOR FINANCE MANAGER

Tom joined us in May 2022 as a Senior Finance Manager. Tom supports the smooth running of the Finance team of the Fund, ensuring the delivery of accurate financial information so that our members are paid correctly and on time.

"From the very first day I started with LPF, I've been welcomed into a supportive and nurturing work environment. No day has been the same and the variety of projects and opportunities I've had to develop my career has been fantastic. I look forward to continually serving LPF to achieve the very best outcomes for our members!"

FINANCIAL PERFORMANCE

	Lothian Pension Fund		Scottish Homes Pension Fund	
	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000
Investment management expenses in compliance with CIPFA guidance	36,356	44,336	48	47
Investment management expenses per financial statements	37,183	44,942	98	88
Disclosure of management expenses in excess of CIPFA guidance	**827**	**606**	**50**	**41**

Utilising its internal investment management expertise, the investment strategy of Lothian Pension Fund has evolved to move away from complicated and expensive investment vehicle structures, such as fund of funds, to increased direct investment, e.g. in infrastructure. This significantly reduces the layers of management fees incurred.

The Fund is now at the realisation stage of its fund of fund investments, with its holdings in listed private equity and infrastructure funds being reduced and those receipts serving to fund additional direct investments. It's expected that over time these disclosures will continue to fall. Crucially, the disclosure of the full costs of investment management remains fundamental to effective comparison between LGPS funds, particularly given the common use of fund of fund investment vehicles.

Investment cost benchmarking

Investment strategy focuses on risk-adjusted returns net of costs. The Fund has participated in investment cost benchmarking provided by CEM, an independent benchmarking expert for global pension funds, with a database of 299 pension funds representing £8.8 trillion in assets. To provide a relevant comparison, CEM calculates a benchmark based on fund size and asset mix, which are key drivers of investment costs.

The latest analysis available (for the year to 31 March 2022) showed that LPF's investment costs of 0.29% of average assets were significantly lower than CEM's benchmark cost of 0.50%, an equivalent annual saving of approximately £18.9m. This saving largely reflects the fact that the Fund manages a relatively high percentage of assets internally compared with other similar pension funds and that it has low exposure to fund-of-fund investment vehicles.

PERFORMANCE AND ADMINISTRATION

Key performance indicators 2022/23

Our strong commitment to customer service drives continuous service development, ensuring the best possible service, whilst recognising potential demands of the future. We set challenging performance targets and measure these through both key indicators which are reported to our Pensions Committee and Pension Board, and internal indicators, which are reported to internal management. This year we've focussed on improving the services we provide digitally to enable members quick and easy access to their personal information.

The table shows our performance against these targets.

2021/2022		Target	2022/2023
Retained	Maintain Customer Service Excellence Standard (CSE) (Annual assessment)	Retain	Retained
Unqualified opinion	Audit of Annual Report and Accounts	Unqualified opinion	Unqualified opinion
100%	Proportion of members receiving a benefit statement by August	100%	100%
96.5%	Overall satisfaction of employers, active members and pensioners measured by surveys	90%	92.7%
99.8%	Percentage by value of pension contributions received within 19 days of end of month to which they relate	99%	99.91%
	Rolling 10-year fund return is >+5% pa unless the benchmark is <+5%pa, in which case, the relative return is positive	Meet benchmark monthly	Met
Met	Monthly pension payroll paid on time	Met	Met
2.5%	Level of sickness absence	4.0%	2.58%
100%	All colleagues complete at least two days training per year	100%	100%
76%	Colleague engagement index	Greater than 70%	79%

LOTHIAN PENSION FUND

OUTSTANDING SERVICE

'I didn't realise it was so easy to upload documents to My Pension Online. I'll encourage my co-workers to do the same.'

PERFORMANCE AND ADMINISTRATION

Value for money

Pension administration benchmarking

Value for money is the term used to assess whether an organisation has obtained the maximum benefit from the services it acquires or provides, within the resources available to it.

It has three components to take account of: economy, efficiency and effectiveness.

For many years, LPF has participated in benchmarking provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The purpose of this is to help identify the areas where we can make improvements to deliver better value for money. The benchmarking facilitates:

- Comparison between costs and performance
- The provision of evidence to support decisions on budget relating to the sustainability and capability to enhance customer satisfaction
- Sharing of information and ideas with peers
- A review of performance trends over time.

The Pensions Administration Standards Association (PASA)

Holding PASA Accreditation is the gold standard for quality in pensions administration. We're proud to hold accreditation, as we believe that it's important that we can demonstrate that we're carrying out our role as a LGPS efficiently and effectively. The PASA standards are an excellent external validation of these capabilities.

PERFORMANCE AND ADMINISTRATION

The outputs and analyses have served to supplement internal performance management information.

We participated in the pension administration survey carried out by CEM for the first time in 2019. This gave us further insight into pension administration costs and quality of service and we've continued to participate since then.

Although CIPFA is exclusive to local authority funds, the CEM peer group also included UK private sector schemes. Participating funds from both private and public sectors were of a significantly larger size than LPF. CEM's benchmarking results categorised our pension administration service as "low cost; high service standard".

Interim results show that cost per member of £25.59 is lower than the adjusted average of £41.15, and a service score of 67 out of 100, which is higher than the peer median of 62. Reasons for the higher score compared to the peer group include:

- Paying retirement lump sums more quickly
- Providing assistance to vulnerable members, including offering specially formatted printed materials and including notifications on our website
- Carrying out targeted campaigns including encouragement to update beneficiary information.

WHAT OUR MEMBERS SAY:

"I found Lothian Pension Fund knowledgeable, friendly, and prepared even to anticipate steps beyond my limited questions and requests, and to offer very welcome and helpful possible alternatives."

PERFORMANCE AND ADMINISTRATION

Customer and complaint feedback

Listening to feedback is key to our services and LPF carry out surveys to monitor individual and overall satisfaction. Our overall satisfaction continues to improve and in 2023 remains above the 90% target at 92%.

We also monitor complaints and ensure we respond to and resolve all complaints where possible, within 20 working days.

We investigate and learn from both formal and informal complaints to ensure we're continuously improving our services. Complaints are split by those about the service we provide and those about how Scheme Regulations are applied.

We carried out 24,832 processes in 2022/23 and there were very few complaints made, less than 0.01 %. Complaints covered a broad range of issues including aggregating previous membership, late payment of retirement benefits and transferring pension benefits.

Internal dispute resolution procedure (IDRP)

Pensions law requires that the Local Government Pension Scheme must have a formal procedure in place for resolving disputes arising from the running of the scheme. The IDRP is a two-stage process. An external independent appointed person deals with disputes at the first stage and the second stage is dealt with by the Scottish Ministers.

In 2022/23, there was one Stage 1 dispute for investigation. If a member remains dissatisfied with the Stage 1 decision, they have six months to take their appeal to Stage 2. In 2022/23 there was one Stage 2 dispute. These disputes are included in the statistics below.

Reason for dispute	Stage 1 outcome	Stage 2 outcome	On-going
Decision on who to pay a lump sum death grant to	0	dismissed	0
Non return of contributions on re-joining LGPS	0	dismissed	0
Awards, e.g. early payment of deferred pension on health grounds	1 ongoing	1 upheld	2

Further information about the IDRP and complaints procedure is available on our website at Complaints and Appeals / LothianPensionFund.

PERFORMANCE AND ADMINISTRATION

Our data

We issued 100% of benefit statements by the statutory deadline of 31 August 2022.

We measure our pension record keeping standards against The Pensions Regulator's best practice guidance. Poor record-keeping can lead to significant additional costs in areas such as administration, error correction, claims from members, as well as fines from The Pensions Regulator.

All our employers submit monthly contribution and pensionable pay data through our employer data portal, and we audit submissions to ensure the continuation of data accuracy.

We utilise a Data Quality Service provided by the administration software supplier to determine the scores for our common and conditional data, as required by The Pensions Regulator. The scores are based on the percentage of clean member records; those considered to be without a single data failure.

The following scores were submitted to The Pensions Regulator for the 2022 annual scheme return. Lothian Pension Fund and Scottish Homes Pension Fund scored 98.6% and 97.8% respectively for common data (2021 scores were 98.4% and 97.5% respectively) and 99.5% and 100% for conditional data (2021 scores were 99.5% and 99.9% respectively). The quality of data continues to be considered to be of a high standard.

Customer Service Excellence (CSE)

We're proud to have held the Customer Service Excellence (CSE) Award (previously known as Charter Mark) since 2008.

The CSE Awards were established to provide a practical tool for service providers to drive customer-focussed change within their organisation. It has helped us to become even more efficient and effective and provide an excellent service to our members and employers.

Yearly formal assessments are carried out by a licenced certification body and we're delighted to have received successful inspections for the last 16 years.

PERFORMANCE AND ADMINISTRATION

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' (“McCloud”) and Firefighters' (“Sargeant”) pension schemes constituted unlawful age discrimination. Following this, in July 2019, a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 4 August 2020, the Scottish Public Pensions Agency (SPPA) issued a statutory consultation on the proposed remedy, with this closing in October 2020. As anticipated, it's proposed that a comparison will be made between the benefits payable under the current rules, with the entitlements which would have been paid if the Scheme had not changed in 2015, and with any higher sum being paid to the member. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Many members' benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced.

As the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementation of the remedy is expected to be extremely challenging from both administration and communications perspectives. SPPA has not yet published its formal response to its consultation.

In late February 2022, SPPA advised that “The Public Service Pensions and Judicial Offices Bill is currently working its way through the committee stage and is on track to get Royal Assent early in 2022. The Department for Levelling-up, Communities and Housing in England and Wales (DLUCH) has confirmed that it intends that the final McCloud remedy regulations will be made in Summer 2022. Scheme regulations will then be backdated to 1 April 2014. Scottish Ministers intend to mirror those regulations. It is intended that Scheme regulations will be made in the second quarter of 2022, coming into force on 1 April 2023. The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2022 will be backdated to 1 April 2015."

We're currently awaiting the government's response to the original consultation and implementation of the amendment regulations which was postponed to 1 October 2023. A further consultation is expected after the England and Wales May 2023 elections.

In preparation for rectification of member benefit entitlements, we've:

- Assigned a Project Manager
- Received data from employers with less than 100 active members
- Are in the process of issuing data requests to employers with over 100 active members
- Recruited new Trainee Pensions Administrators to ensure we have sufficient resources to deal with both remedy and current workloads
- Acquired a data validation tool to analyse employer responses
- Continued to receive updates to our pensions administration software in respect of calculations
- Ensured we're aware and alert to any emerging national guidance from the Local Government Association
- Continued engagement with the other Scottish LGPS administering authorities.

PERFORMANCE AND ADMINISTRATION

Member service

Our in-house pension administration team provides a dedicated service for the pension fund members. We monitor the time taken to complete our procedures. Key procedures include: processing of retirement and dependent benefits; providing information for new members; and transfers and retirement quotes. Our non-key procedure measure incorporates other pension administration measures, for example: aggregation (joining two periods of membership together); recalculation of pension benefits due to a backdated pay award; and updating member details (bank details, marital status) and so on. During the year we identified that our non-key workload was experiencing a backlog. As we were comfortable that our critical and key performance measures were in an overall stable position, the team continued to target non-key work. This allowed us to maintain overall levels of member satisfaction whilst keeping in mind the importance of maintaining our critical and key measures.

Despite the challenging environment, 97.88% of key procedures in 2022/23 were completed on target.

PERFORMANCE AND ADMINISTRATION

The table below shows performance against key procedures in 2022/23.

2021/22		Target	2022/23
97.4%	Proportion of critical pensions administration work completed within standards – individual performance within this indicator are shown below	Greater than 92%	97.9%
97.7%	Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	91%	99.7%
98.7%	Pay lump sum retirement grant within seven working days of receiving all the information we need from the member	96%	98.3%
95.6%	Acknowledge of the notification of the death of a member to next of kin within five working days	96%	97.4%
100%	Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	96%	100%
94%	Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service	91%	97.4%
79.1%	Proportion of non-key procedures completed within standard including Additional Regular Contributions, responding to member communications, updating nominations and maintaining the member database	75%	75.8%
93.5%	Notification of dependant benefits within five working days of receiving all necessary paperwork	96%	96.5%
98.8%	Payment of CETV within 20 working days of receiving all completed transfer out forms	96%	97.2%
93%	Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider	96%	98.1%
94%	Notify members holding more than three months, but less than two years' service, of their options at leaving. As there is a one month and a day lying period, the target is within 10 days of the end of the lying period or after the employer providing full leaving information if later	85%	96.7%
99.2%	Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form	91%	98.5%
99.7%	Estimate requested by employer of retirement benefits within 10 working days	91%	100%
97.1%	Pay any lump sum death grant within seven working days of receipt of the appropriate documentation	96%	99.4%

PERFORMANCE AND ADMINISTRATION

Online services

We continue to encourage members to visit the website and access the online service. 51.4% of all members have registered for My Pension Online and for active members, this figure rises to 58.0% using the service.
To increase this, we've worked with employers to obtain email addresses where these aren't held.

We've made further enhancements to our online services in the last 12 months, giving members the option to complete their retirement online. This was initially introduced for active members retiring voluntarily and deferred members and we've been really encouraged by the uptake, with 74.4% of active members and 84.2% of deferred members requesting payment of their benefits online. We'll look to make further improvements during the coming year to allow active members retiring through redundancy or ill-health to complete the process online.

Members leaving after less than two years' membership can also now claim their refund of contributions online. Since this was launched in October 2022, 64% of members who received payment of a refund requested this through the online service.

In addition to these improvements, we have also partnered with Crown Agents Bank to provide our overseas pensioners with a digital means to carry out the annual existence check exercise. The existing process required members to attend a Western Union bureau with photographic ID or complete a Proof of Life Certificate and have it countersigned by an appropriate person. The new process allows members to complete the process from home, using digital facial authentication, by uploading a photo of themselves and of their photographic ID. The option to use a Proof of Life Certificate is still available.

Following a successful trial with a small group of members, we rolled out the process to all overseas members in October 2022. In total, 381 members completed the exercise, and of those, 335 (or 88%) did so using the digital method.

Our current website went live in March 2022 and provides a single integrated platform, which allows development of further online services. We continually review and update the website to ensure information is accurate and provide information on changes we've made to our processes, as a result of complaints, as well as our service and performance standards.

Our employers also use a variety of digital services including providing monthly contribution returns via a secure transfer portal and allowing data to be automatically uploaded to the pension software system. This has significantly improved the provision of employer data, allowed automation of tasks, and considerably simplified the year end processes. We now receive member specific documents through i-Connect rather than Go Anywhere. This reduces risk as the document is automatically uploaded onto the member's record.

PERFORMANCE AND ADMINISTRATION

Protecting members from transfer scams

The Pensions Act 2021 introduced two new conditions to be satisfied before a member's pension could be transferred to another scheme.

The first is that the scheme receiving the transfer must either be a Public Sector pension scheme or a Master Trust or Collective Money Purchase scheme named on The Pension Regulator's (TPR's) approved list. If this condition isn't met, the transferring scheme has to check for any red or amber flags before we can proceed with the transfer. Where red flags are present, the transfer must be cancelled, while the member should be referred to MoneyHelper if there are any amber flags.

Red flags include that the member requested the transfer as a result of unsolicited contact or was offered an incentive to transfer. Amber flags include where the member couldn't provide evidence of a link to the new pension scheme (e.g. that they work for an employer that is part of the scheme) or where the new scheme's charges or investment structure are unclear.

We've now reviewed all our transfer procedures to make sure that we identify any of these flags and refer the member to MoneyHelper, when needed, to protect our members from pension scams.

AVC "Nudge"

New regulations introduced in June 2022 mean that members over the age of 50 who've been paying Additional Voluntary Contributions (AVCs) need to take additional steps before they can do anything with their AVC fund. This is known as a 'Stronger Nudge to Pensions Guidance' and provides further protection to members by helping them make an informed decision about what to do with their AVC fund.

We've now updated our processes and relevant documents. When a member applies to take payment of their AVCs alongside their main pension, or transfer them to access through another Defined Contribution scheme, they need to either take guidance from Pension Wise to ensure they make an informed decision or tell us that are opting out of taking this guidance. Members can make an appointment with Pension Wise themselves or ask us to do it for them, but they need to provide evidence that they have received guidance, or confirm in writing that they've opted out.

COLLEAGUE PROFILE MARK DOBBIE, PORTFOLIO MANAGER

Mark joined LPF in August 2022 as a Portfolio Manager in the equities team. He's responsible for managing one of our in-house global equity strategies and supporting the implementation of the Fund's wider equities investment strategy. Mark says:

"I'm proud to be part of an organisation that has such a clear focus on delivering positive outcomes for our many members. Working alongside a friendly, talented and dedicated team makes this all the more rewarding."

PERFORMANCE AND ADMINISTRATION

Employer performance

The Pensions Administration Strategy sets out the roles and responsibilities of both the Fund and employers, specifying the levels of services the parties will provide to each other, and referring to four key areas where the Fund will pass on the costs of poor performance from employers:

- Late payment of contributions
- Late submission of membership information at the end of the year
- Failure to supply the Fund with information required to provide members with pensions savings statements
- Failure to provide details of member contributions monthly.

These areas are particularly important to ensure compliance with legislation, including accurate data to administer the career average pension scheme, and the requirement to provide members with a pension forecast by 31 August each year. Charges for late payment of contributions are as stated in the Scheme Regulations, whilst other recovery of costs has been set to reflect the additional time spent in resolving queries and pursuing late information.

WHAT OUR MEMBERS SAY:

"I didn't realise it was so easy to upload documents to my pension online i.e., forms and passport. I will encourage my co-workers to do the same. Everyone on the phones were helpful."

PERFORMANCE AND ADMINISTRATION

Since the strategy was introduced, provision of early leaver and retiral information from employers has been well below the expected standard. During 2022/23, our officers took a variety of approaches to improve employer performance, including:

- Providing training to payroll/HR colleagues via Microsoft Teams
- Presenting performance updates at virtual meetings
- Escalating to senior officers at annual employer meetings
- Monitoring with employers where performance has been particularly poor.

To improve service to members, indirect costs can now be recovered from an employer if any persistent and ongoing administration failures occur, with no improvement demonstrated, or if they're unwilling to resolve the identified issues.

We monitor employer performance against the standards set out in the Pension Administration Strategy. Results are reported to employers in an annual performance report, with more regular reporting for larger employers.

Overall employer performance for 2022/23 is shown below, with 2021/22 shown for comparison purposes.

		2021/22			2022/23		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New members	20	6,099	5,335	87%	7,553	6,979	92%
Leavers	20	3,529	2,074	59%	4,575	2,609	57%
Retirements	20	1,425	544	38%	1,450	517	36%
Deaths in Service	10	32	20	63%	15	5	33%

PERFORMANCE AND ADMINISTRATION

All employers are now submitting new starters through i-Connect which has improved the performance this year. We expect further improvement next year with only exceptional cases not being met in target.

Whilst the provision of leaver information has improved, a high percentage are still being received out of target. One of our largest employers identified a high amount of historical cases and this has impacted the Fund result negatively. We continue to provide missing leaver queries to employers on a monthly basis, and our year end process helps identify historical cases to employers which require urgent attention.

Most retirement information continued to be provided out of target. Similar to last year, just over a quarter of retirements out of target are received between 10 and 19 days before the member's retirement date, but just over 40% are received after the member's retirement date.

Employer	Number of late payments	Employer	Number of late payments
Scotland's Learning Partnership	6	Bellrock	1
Dacoll	1	Edinburgh Leisure	1
Edinburgh Development Group	1	Heriot-Watt University Students Association	1
Pilton Equalities Project	1	Scottish Futures Trust	1
TOTAL			**13**

Contributions by value paid on time

99.8% of contributions by value were paid on time. Of the 777 payments made, 13 were paid late and these are shown in the table. The option to levy interest on overdue contributions was not exercised in 2022/23 as late contributions weren't received significantly later than the 19th day.

OUR COLLEAGUES

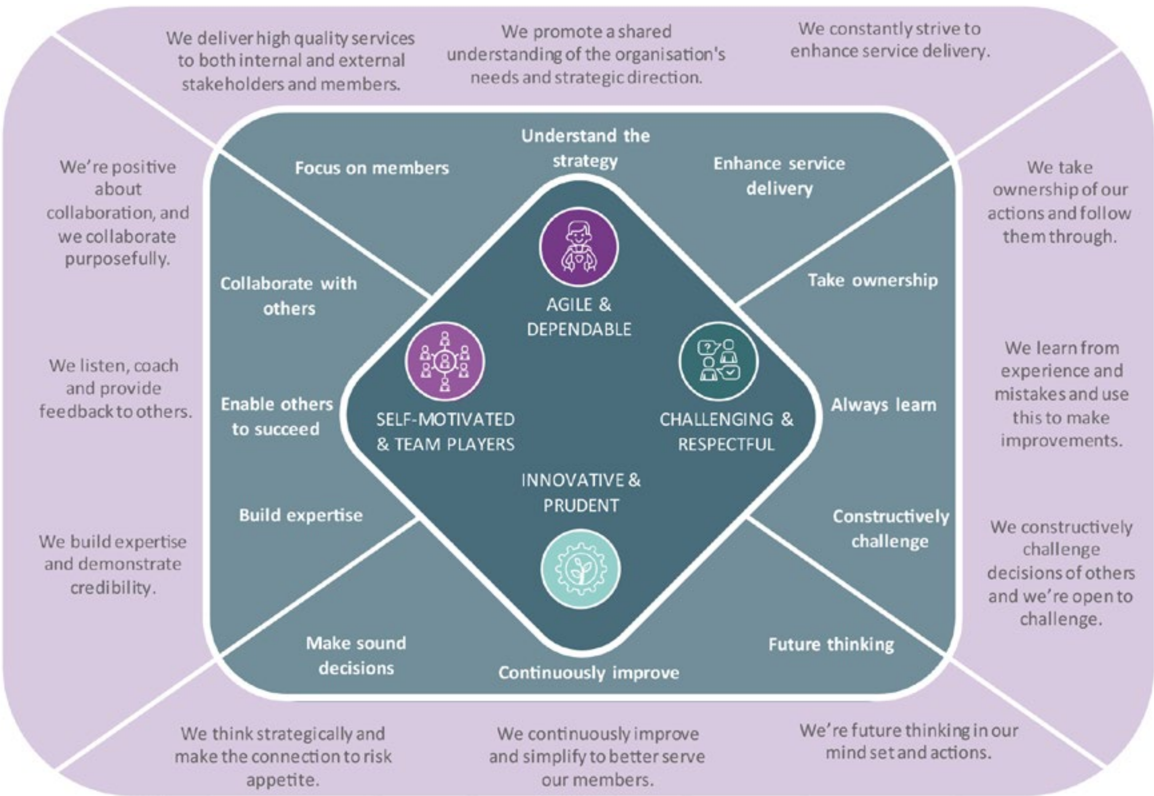
Our colleagues

Engaging our colleagues is critical to delivering our strategy and ambition. We firmly believe that having happy and motivated colleagues helps us deliver for our members, employers and stakeholders.

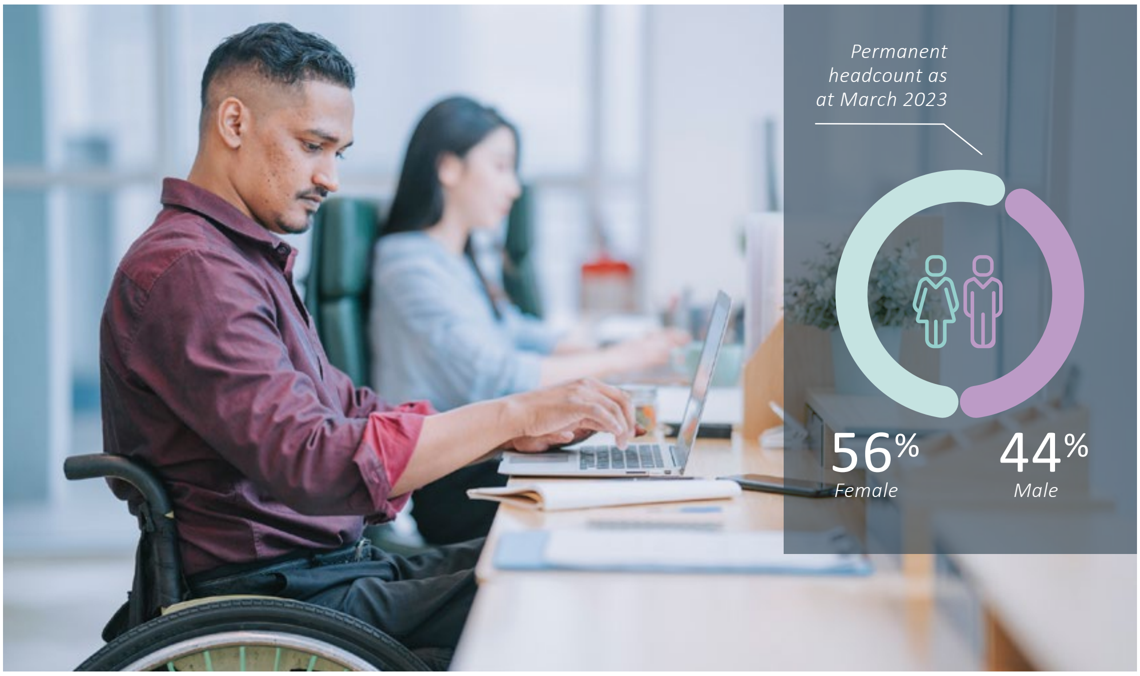
Our core values

We're passionate about pensions and our values are enduring principles that inform, inspire and instruct our day to day behaviour. We're proud to be:

- **Agile and dependable**
  We approach work with an open and flexible attitude and take responsibility to manage our work effectively and efficiently. We also embrace new processes in a consistent and reliable way.
- **Self-motivated and team players**
  We actively participate as individuals, taking pride and responsibility in what we do. At the same time, we show awareness for the team and ensure our objectives support the team's objectives.
- **Challenging and respectful**
  We appreciate the need to challenge status quo and ask questions in a constructive and respectful way.
- **Innovative and prudent**
  We always look to improve processes and practices and ensure we do this in a way that's safe and protects LPF from unnecessary risk.



OUR COLLEAGUES

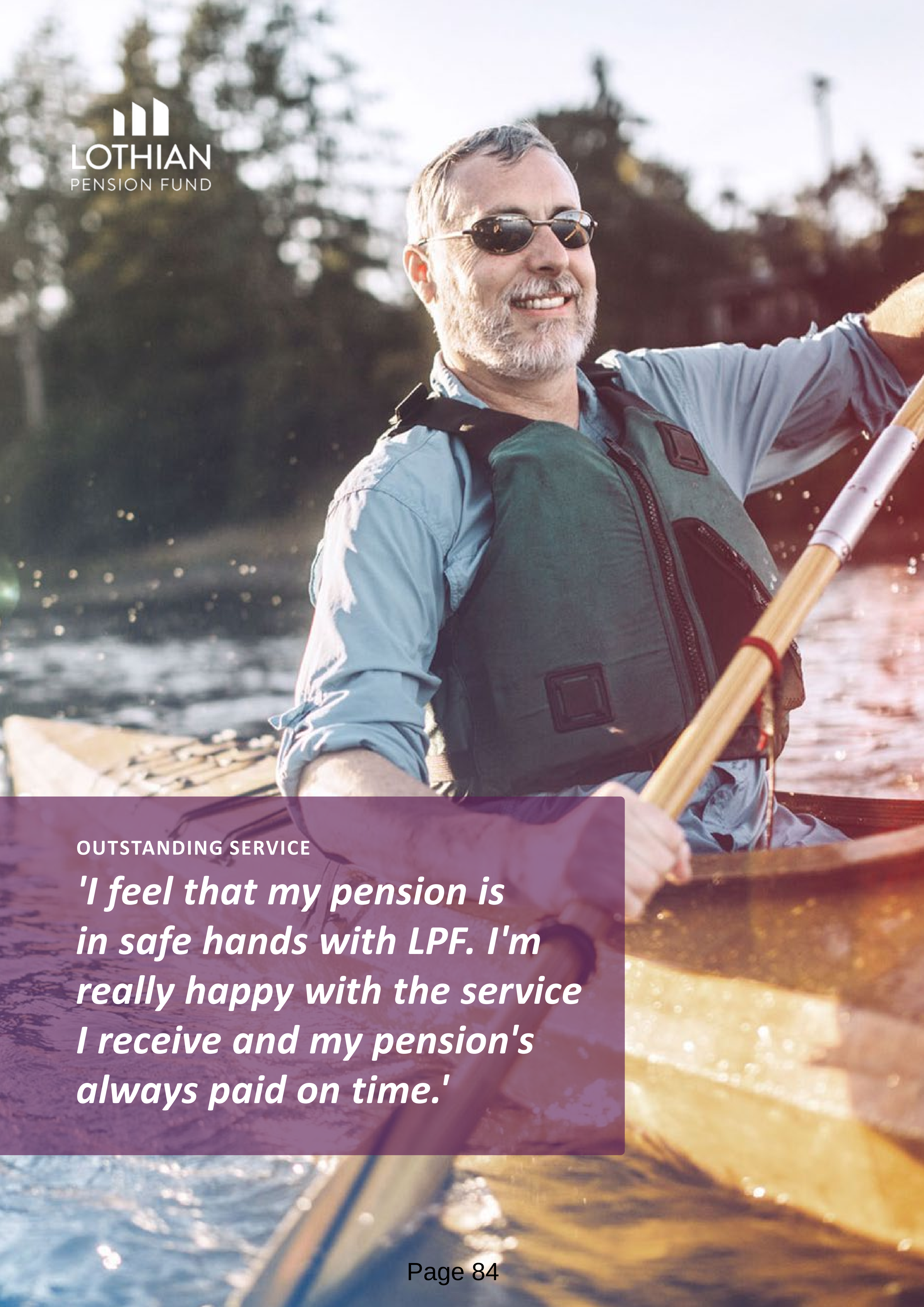


Inclusivity

We're one team, but we represent many ideas, experiences and backgrounds. We value everyone's contributions and believe that our colleagues should be their whole self at work. We want a diverse, inclusive and respectful workplace and this will be achieved by driving a positive environment. As at 31 March 2023 our permanent headcount was 56% female and 44% male.

We recognise the many strengths and talents our diverse colleagues bring to the workplace so we're taking steps to make sure that LPF is as inclusive as possible for both our colleagues and members:

- In 2019, we signed up to Disability Confident and more importantly, committed to review and improve everything we do with respect to recruitment and employment
- Through Disability Confident, we'll work to ensure that disabled people and those with long term health conditions can fulfil their potential and realise their aspirations with us as an employer
- We're proud to be one of the first firms in Scotland to partner with Future Asset and offer work experience placements for senior school girls. Future Asset aims to raise aspirations and confidence in girls in S4-S6, encouraging them to choose ambitious career paths, and informing them about rewarding opportunities in investment
- We've joined several organisations supporting the Scottish launch of a nationwide initiative focussed on increasing diversity and inclusion in the asset management, professional services, and financial services industries
- We continue our work on the Scotland chapter of the Diversity Project, which aims to accelerate progress toward a more inclusive culture in the investment and savings sectors across all demographics, including gender, ethnicity, sexual orientation, age and disability.



LOTHIAN
PENSION FUND

OUTSTANDING SERVICE

'I feel that my pension is in safe hands with LPF. I'm really happy with the service I receive and my pension's always paid on time.'

OUR COLLEAGUES

Gender balanced

We continue to work towards our goal of being fully gender balanced across the organisation by 2030.

- As at 31 March 2023 we have, on aggregate, 58% women in our top three leadership layers and across the whole company, 56% of our workforce are women
- Our mean gender pay gap is 20.6%
- Our positive action approach for gender, which is benchmarked externally, is helping to ensure that our people policies and processes are inclusive and accessible, from how we attract and recruit, to how we reward and engage our colleagues
- In 2022/23 we recruited 26 colleagues; 58% of these were women.

Performance and reward

Our approach to performance management provides clarity for our colleagues about how their contribution and performance links to our vision and values. We're transparent with our pay structures to ensure our colleagues understand that they're paid fairly for their performance in line with industry best practices.

We make sure that colleagues have a common awareness of the financial and economic factors affecting LPF's performance through monthly all colleague calls and biannual events. More information on our remuneration policies and employee share plans can be found later in this document.

In October 2022 we awarded a large proportion of our colleagues with a £1,500 (pro rata) salary increase. This out of cycle increase was in addition to the usual annual pay review and was to support them with the cost-of-living crisis.

Developing skills and capabilities culturally

Becoming a learning organisation is one of our priorities. We ensure that colleagues have the required skills and qualifications to perform their roles and prepare them for the future. We're committed to developing colleagues in key areas we've identified that will help build the right knowledge, skills, and behaviours to help them stay relevant and employable and support our ambition and purpose. In addition, we're encouraging agility and shifting mindsets so that a focus on the future, continuous learning, knowledge-sharing and reflective practice becomes the norm.

OUR COLLEAGUES

The Scottish Government and Scottish Funding Council launched the Flexible Workforce Development Fund in 2017. The academic year 2020-21 was the first year that the funding was made available to small and medium sized enterprises to support with the upskilling and reskilling of workforces, address skills gaps and contribute to recovery from the Covid-19 pandemic. We worked closely with Edinburgh College to create a bespoke management training programme devised to upskill our management population. We secured the funding again in 2022 and were able to roll out the same programme to our new managers to ensure everyone had the same opportunities and skills to successfully perform in their roles. The programme was rolled out over a series of half day sessions for our management population and focussed on performance management, difficult conversations, assertiveness skills, effective leadership and leading and motivating teams.

In September 2022 customer service and complaint handling training was delivered to our customer facing colleagues. The customer service training helped develop colleagues' awareness of the personal skills, attitudes and behaviours that influence the customer experience. The complaint handing training helped individuals take personal responsibility for customer service and allows them to handle customer complaints effectively.

In December 2022 our managers and senior administrators attended training on coaching for performance. The aim of this training was to: provide them with the tools and techniques required to carry out different styles of coaching; be able to undertake effective coaching conversations and coaching sessions; and coach colleagues to improve performance.

Investing in colleagues

In 2022 we procured a new human resource information system (HRIS) which would integrate our people, learning and payroll system into one application and improve our efficiencies and data analysis. The new HR system was implemented on 9 January 2023 and our upgraded learning management system went live on 16 January. We now have an online performance management process and all colleagues have recorded their 2023 performance goals.

The new systems have been well received by our colleagues, so we'll continue to build on the functionality of both systems over the coming months to make sure our colleague experience remains positive.

Our digital e-learning platform, Compliance Serve, gives our colleagues the opportunity to expand their own development as well as complete our quarterly core learning. This platform allows us to regularly report on our company learning targets and our colleagues can record all their continued professional development (CPD) in one place. As at 31 March 2023, 100% of our colleagues had completed their 20 hours of annual CPD.

Health and wellbeing

We firmly believe that colleague wellbeing is linked to a successful and happy workforce. All colleagues have access to our free Employee Assistance Programme which offers help and advice on topics like health, legal, finance and lifestyle.

We take our colleagues' wellbeing very seriously and to support this, we continue to develop our suite of Moments that Matter documents focusing on mental health, physical health, financial health, relationships, and life changing events. These documents are aimed to help colleagues and managers recognise signs and symptoms of wellbeing concerns and where to find help and support. They're also available to our members on our new website www.lpf.org.uk.

We also run weekly virtual WorkFit fitness classes to help keep our colleagues healthy and moving.

OUR COLLEAGUES

Throughout 2022 we held various sessions focusing on wellbeing. During Mental Health Awareness Week, we planned daily activities to promote metal health and we invited an external speaker to talk about building personal resilience and taking care of our mental health during challenging times.

During Pride month we raised awareness of the current issues facing the LGBTQA+ community by sharing key messages with the team and suggesting ways for everyone to get involved. We sponsored the Edinburgh Pride march in Edinburgh on its 25th anniversary and the first since 2019.

On Mental Health Day, we welcomed Therapet dogs into the office to show the benefits of having pets as companions and they talked about the good work they do in education.

Charity days

During 2022 several teams across the organisation completed various charity days to help support our local communities. The teams carried out a variety of activities including painting and gardening to support the local community as well as sorting and packing clothes for Kids Love Clothes.

Management commentary approved by:

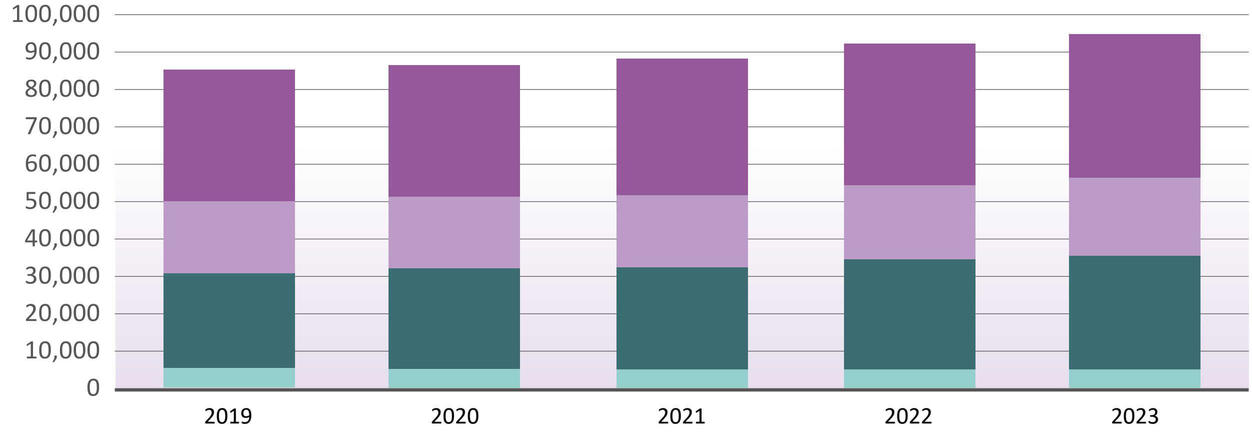
Andrew Kerr
Chief Executive Officer
The City of Edinburgh Council
21 June 2023

David Vallery
Chief Executive Officer
Lothian Pension Fund
21 June 2023

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
21 June 2023

LOTHIAN PENSION FUND INVESTMENT STRATEGY

LOTHIAN PENSION FUND MEMBERSHIP DATA



	2019	2020	2021	2022	2023
Active	35,014	35,874	36,149	37,207	37,614
Deferred	19,094	19,098	19,049	19,832	20,427
Pensioner	25,627	27,091	27,843	28,870	29,800
Dependant	4,199	4,229	4,173	4,161	4,155

Investment strategy

The Fund’s current investment strategy was approved by the Pensions Committee in June 2021.

The objective of the Fund’s investment strategy is the achievement of the discount rate, the return that the actuary prudently assumes will pay pensions as they fall due and will also be consistent with affordable and stable employer contribution rates.

The Fund’s investment strategy reflects the duration of its liabilities, the pensions it will pay in the future. For most employers, these liabilities stretch decades into the future. Consequently, the strategy allocates a substantial portion of the Fund to assets that are expected to grow in real terms over the long term, such as equities. However, given that these types of assets are volatile, and that the future is uncertain, the strategy includes other asset types to diversify risk. The macroeconomic backdrop also influences the formation of the investment strategy and its implementation and, given the more inflationary environment than that of recent years, this supports the emphasis on real assets that have a history of protecting investors from the worst effects of inflation.

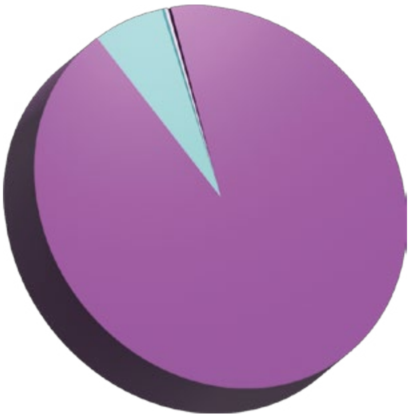
There were no changes to fund strategy over the year to end March 2023. The Total Fund Strategy percentages shown below are a weighted average of the employer strategies. Movements in the relative size of these strategies has resulted in modest changes to the Total Fund Strategy weightings.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Employer strategies

Lothian Pension Fund is a multi-employer pension scheme and not all employers are alike. To address their differing funding requirements the Fund operates four distinct investment strategies. The assets in each strategy are shown in the table below. Employers fund their liabilities with the strategy that reflects their ability to tolerate risk.

EMPLOYER GROUP STRATEGIES 31 MARCH 2023



Main Strategy **94.1%** (£9,075m)

Buses Strategy **5.3%** (£513m)

50/50 Strategy **0.4%** (£37m)

Mature Employer Strategy **0.1%** (£15m)

TOTAL WEIGHT 100%
TOTAL ASSETS 9,701 (£m)

Most employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy, aiming to generate an investment return that will minimise the cost to the employer within reasonable and considered risk parameters. The Main Strategy maintains significant exposure to real investments, such as Equities and Infrastructure, which have a history of protecting and growing purchasing power.

A small number of employers are funded in the Mature Employer Strategy, which invests in a portfolio of UK index-linked gilts to reduce funding level and contribution rate risk as they approach exit from the Fund. The liabilities funded by the Mature Employer Strategy represent approximately 0.2% of total liabilities.

The 50/50 Strategy enables another small group of less mature employers to fund liabilities with a 50/50 mix of the Main Strategy and the Mature Employer Strategy. The liabilities funded by the 50/50 strategy represent a further 0.4% of total liabilities.

The Buses Strategy, which was created when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund on 31 January 2019, is a 55/45 mix of the Main Strategy and the Mature Employer Strategy. The liabilities funded by the Buses strategy represent approximately 5.4% of total liabilities.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Policy groups

The investment strategies are described in terms of allocations to broad asset classes, or policy groups, which are the key determinants of risk and return. These policy groups are Equities, Real Assets, Non-Gilt Debt, LDI (Gilts) and Cash. Although individual investments within each group will have different risk and return characteristics, each policy group targets a long-term return in relation to the return from UK gilts. The return target provides perspective on the expected risk of each group in relation to Fund liabilities.

The table below presents the policy group target allocations of the four investment strategies at end March 2023 along with the total Fund strategy, which is the weighted average of the four employer strategies.

LOTHIAN PENSION FUND 31 March 2023	Main strategy	Mature Employer strategy	50/50 strategy	Buses strategy	Total Fund Strategy
Equities	60.0%	0.0%	30.0%	33.0%	58.3%
Real Assets	20.0%	0.0%	10.0%	11.0%	19.4%
Non-Gilt Debt	10.0%	0.0%	5.0%	5.5%	9.7%
LDI (Gilts)	10.0%	100.0%	55.0%	50.5%	12.5%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Numbers may not sum due to rounding

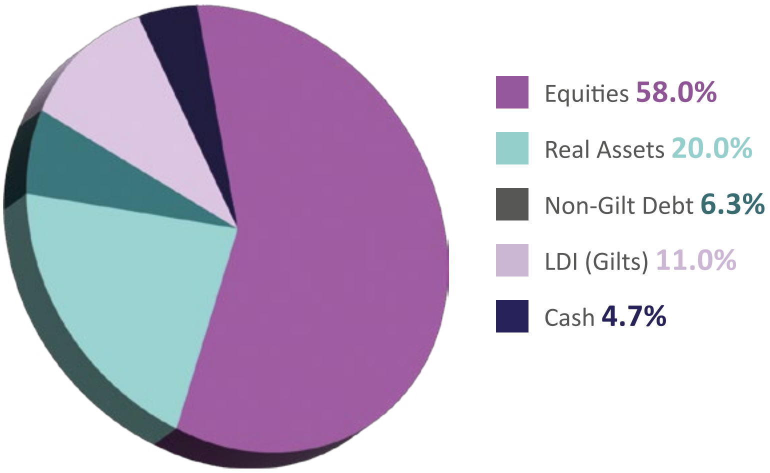
The LDI policy group comprises index-linked and nominal gilts. It does not use financial leverage, which caused some pension funds to become forced sellers of assets in the autumn of 2022. This is the lowest risk, lowest expected return policy group as it's possible to match the cash flows of gilts with the pension payments that the Fund expects to pay in the future. The purpose of the other policy groups is to generate a return in excess of the gilt return to make the Fund affordable to employers. The other policy groups, therefore, are expected to generate higher returns over the long term – the actuary models 20 years into the future. These higher returns come at the cost of higher risk or volatility.

Strategy implementation

The Pensions Committee delegates implementation of investment strategy to the Fund's officers, who are tasked with investing each policy group within specified ranges. These are laid out in the Statement of Investment Principles. The actual allocation at end March 2023 is presented in the pie chart below. The largest deviation from strategy is the overweight position in cash (+4.7%), which reflects continuing caution about the valuation of other assets, though is considerably lower than last year following recent opportunities to increase allocation to Real Assets and LDI at more favourable prices. Offsetting underweight positions are in LDI (or gilts) and Non-Gilt Debt. The Fund's exposure to Equity and Real Assets, which should help protect against inflation, is broadly in-line with target. The Fund has operated comfortably within the prescribed ranges over the year.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

ACTUAL ASSET ALLOCATION TOTAL FUND 31 MARCH 2023



Within policy groups, the Fund pays careful attention to risk taken to achieve returns and the cost of implementation. Within Equities, for example, the strategy typically avoids higher risk securities, meaning that its portfolio is lower risk than the benchmark. This has been the case for the last several years. One of the benefits of this approach is that it helps to maintain a low cost of implementation as turnover is generally quite low. Also contributing to a low cost of implementation is the internal management of just under 90% of equity assets.

The Real Assets policy group allocation has grown substantially over the last several years. The investments in this diverse category are comprised of (very largely UK) property, a wide range of infrastructure assets, including a variety of renewables, regulated utilities and other essential assets and timberlands. Again, there is a wide range of expected risk and expected returns associated with these types of private market assets. The Fund seeks long term, defensive investments with inflation protection or correlation, and expects returns and risk to be somewhat lower than those from the Equity policy group and for the assets to provide some diversification benefits.

The Non-Gilt Debt policy group comprises investments in various non-gilt debt securities. However, as its purpose in the Fund is to diversify equity risk, it eschews most high yield debt instruments, which are riskier and strongly correlated with equities. The Fund also invests in overseas sovereign bonds, which are included in this policy group.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment portfolio changes

The table below shows the changes to asset allocation over the year. They were relatively small and reflect both market movements and investment activity.

POLICY GROUP	Actual Allocation 31 March 2022	Actual Allocation 31 March 2023	Change %
Equities	58.5%	58.0%	-0.5%
Real Assets	17.3%	20.0%	+2.7%
Non-Gilt Debt	7.6%	6.3%	-1.3%
Gilts	8.5%	11.1%	+2.6%
Cash	8.1%	4.7%	-3.4%
Total	**100%**	**100%**	

Note: Numbers may not sum due to rounding

The Equity allocation is broadly unchanged over the last twelve months.

The Real Assets allocation increased during the year, primarily due to net new investment activity. In particular, new infrastructure investments were made throughout the year which offset distributions of income and capital for existing private market investments. The Fund continued to source new investments to achieve the target Real Asset allocation, and the real asset policy group was a net investor during the year.

The allocation to Non-Gilt Debt fell modestly over the year, mainly as a result of weak relative returns. In contrast, the exposure to LDI (or gilts) increased, despite weak returns. Having been underweight LDI for some time, the Fund took the opportunity to accelerate its hitherto gradual purchases of UK government bonds during the Truss government-induced market weakness in September/ October 2022.

The net result of the changes was a reduction in cash. The cash position twelve months ago was highlighted to be a temporary, defensive position which was supported by the Fund's advisers. Some of this cash was utilised during the market dislocation in gilts referenced above, to purchase gilts at more attractive yields and move the Fund closer to the strategic target allocation.

There were no changes to investment strategy during the period; changes to Total Fund Strategy allocation weightings over the year were solely a result of movements in the relative size of the underlying strategies. The changes to actual asset mix, while more significant, were also relatively minor. The largest actual change was the reduction in cash which was used to increase the allocation to Real Assets and LDI.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment performance

The investment objective of the Fund is to achieve a return on assets sufficient to meet the funding objectives over the long term as outlined in the Funding Strategy Statement. In effect, the Fund aims to generate adequate returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.

This aim is translated into a strategic benchmark comprising a mix of assets, whose future returns are expected to approximate the required returns over the long term. The Fund is not expected to track the benchmark from year to year, but it does target a return broadly in line with its strategic benchmark allocation over the long term, with a lower-than-benchmark level of risk.

There are two main reasons why returns will deviate from the benchmark, particularly over shorter timeframes: portfolios aren't constructed to track listed market benchmarks, and private market benchmarks aren't readily available nor assets well suited to short term measurement.

The Fund's performance over the last year and over longer-term timeframes is presented in the table below, both relative to the asset benchmark and with other relevant economic metrics. UK CPI and Average Weekly Earnings are both measures of inflation and Fund liabilities are, of course, linked to long term inflation. Both had grown at low and relatively stable rates for many years until recently.

Annualised returns to 31 March 2023 (% per year)	1 year	5 years	10 years
Lothian Pension Fund	0.3	6.3	8.3
Benchmark*	-14.6	4.5	6.9
Average Weekly Earnings (AWE)	4.9	4.3	3.5
Consumer Price Index (CPIH All Items)	8.9	3.8	2.6

**Comprises equity, 'gilts plus' and gilts indices*

COLLEAGUE PROFILE ABIGAIL FORTUNE, GRADUATE TRAINEE ACCOUNT

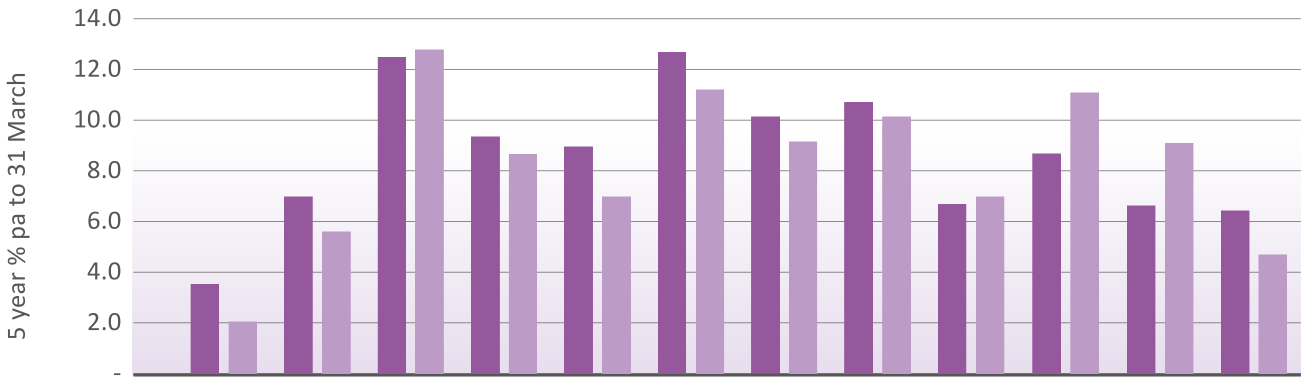
Abby joined us as a graduate trainee accountant in June 2019. Abby's role involves carrying out a wide variety of financial analysis and control tasks across the Fund, while also working towards her professional accountancy qualification.

"As a graduate trainee accountant with LPF, I've valued the freedom to work across a wide variety of areas, which is something I likely wouldn't have had in larger companies. I am currently working on the testing for our new finance system, the implementation of which will increase the finance team's efficiency and improve workflows across the company."

LOTHIAN PENSION FUND INVESTMENT STRATEGY

The following bar chart presents the underlying performance data in a long-term context. It shows rolling 5-year returns for the Fund, its asset-based benchmark, and the relative return. The historical record highlights that these numbers fluctuate meaningfully over time, and so caution is required when interpreting individual data points. It is important to remember that the objective of the Fund is to balance both risk and return. While the chart below looks solely at the return component, the table with policy group components (below the bar chart) adds the perspective of the risk taken to achieve those returns.

ANNUALISED 5 YEARLY RETURNS ENDING 31 MARCH (% PER YEAR)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund	3.6	7.1	12.7	9.5	9.1	12.9	10.3	10.9	6.8	8.5	6.5	6.3
Benchmark	2.1	5.7	13.0	8.8	7.1	11.4	9.3	10.1	7.1	11.8	8.6	4.5
Relative	+1.5	+1.4	-0.3	+0.7	+1.9	+1.5	+1.0	+0.8	-0.3	-3.2	-2.1	+1.7

While the chart above looks solely at the return component, the policy group table below adds the perspective of the risk taken to achieve those returns. It presents the Fund's risk and return over 1 and 5 years as calculated by its independent performance measurement provider. It breaks down the performance by policy group where available. Due to changes to the structure of the Fund, there are no meaningful 10-year numbers for the individual policy groups.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

The following table presents the Fund's risk and return over 1, 5 and 10 years as calculated by its independent performance measurement provider. It breaks down the performance by policy group where available. Due to changes to the structure of the Fund, only one policy group has meaningful 10-year data.

TO END MARCH 2023

POLICY GROUP	1 year (%)		5 year (% pa)		10 year (% pa)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	4.3	-1.4	8.4	9.7		
Real Assets	7.9	-36.6	7.5	-3.8		
Non-Gilt Debt	-3.7	-10.0	1.9	-0.5		
LDI (Gilts)	-38.6	-39.1	-6.7	-6.7	0.9	1.3
Total Fund Return	**0.3**	**-14.6**	**6.3**	**4.5**	**8.3**	**6.9**
Total Fund Risk*	**8.3**	**10.8**	**7.0**	**11.2**	**6.8**	**9.3**

**1 year predicted; 5 years ex-post (source: Portfolio Evaluation)*

The Fund produced an absolute return of +0.3% over the twelve months to end March 2023, which was notably ahead of the benchmark return of -14.6%. With risk below benchmark, it outperformed its long-term objective over the short 1-year timeframe.

Reasonable returns were achieved within Equities and Real Assets. The Fund's Equities gained 4.3% over the year, comfortably ahead of the global index (MSCI ACWI in GBP) return of -1.4%. Within the Real Assets category, the return of +7.9% was led by strength in both unlisted infrastructure (+19.6%) and timber & agriculture (+12.0%) investments.

Five-year returns were above benchmark at +6.3%pa vs +4.5%pa and over ten years the comparison was +8.3%pa vs +6.9%pa. In summary, over each of these time periods, Fund returns have been above benchmark.

On the risk side of the equation, the Fund has achieved its returns with notably lower levels of volatility than its benchmark (approximately 63% of benchmark risk over five years and 73% over ten years), so from a risk / return perspective the outcomes were notably better than expected over the 1, 5 and 10-year timeframes.

LOTHIAN
PENSION FUND

OUTSTANDING SERVICE

'I’m not tech savvy, but the colleague I spoke to over the phone was very helpful and guided me through the online process. I’m very grateful for their help.'

LOTHIAN PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2023

Financial statements

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included are employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

Lothian Pension Fund				Lothian Pension Fund	
Parent	Group			Parent	Group
2021/22	2021/22			2022/23	2022/23
£000	£000		Note	£000	£000
		Income			
198,944	198,944	Contributions from employers	4	201,867	201,867
53,201	53,201	Contributions from members	5	57,383	57,383
5,130	5,130	Transfers from other schemes	6	6,551	6,551
257,275	**257,275**			**265,801**	**265,801**
		Less: expenditure			
195,116	195,116	Pension payments including increases	7	206,225	206,225
51,043	51,043	Lump sum retirement payments	8	52,541	52,541
7,662	7,662	Lump sum death benefits	9	9,489	9,489
531	531	Refunds to members leaving service		845	845
-	-	Premiums to State Scheme		-	-
5,874	5,874	Transfers to other schemes	10	11,689	11,689
2,820	2,439	Administrative expenses	11a	3,202	1,088
263,046	**262,665**			**283,991**	**281,877**
(5,771)	**(5,390)**	**Net (withdrawals)/additions from dealing with members**		**(18,190)**	**(16,076)**
		Returns on investments			
276,010	276,010	Investment income	12	339,114	339,114
676,468	676,468	Change in market value of investments	14, 19b	(188,055)	(188,055)
(37,183)	(35,534)	Investment management expenses	11b	(44,942)	(39,595)
915,295	**916,944**	**Net returns on investments**		**106,117**	**111,464**
909,524	**911,554**	**Net increase in the fund during the year**		**87,927**	**95,388**
8,697,762	**8,693,689**	**Net assets of the fund at 1 April 2022**		**9,607,286**	**9,605,243**
9,607,286	**9,605,243**	**Net assets of the fund at 31 March 2023**		**9,695,213**	**9,700,631**

LOTHIAN PENSION FUND
NET ASSETS AS AT 31 MARCH 2023

This statement provides a breakdown of type and value of all net assets at the year end.

Lothian Pension Fund				Lothian Pension Fund	
Parent	Group			Parent	Group
31 March 2022	31 March 2022			31 March 2023	31 March 2023
£000	£000		Note	£000	£000
		Investments			
9,528,867	9,528,867	Assets		9,650,374	9,650,374
(4,466)	(4,466)	Liabilities		(9,386)	(9,386)
9,524,401	**9,524,401**	**Net investment assets**	**13**	**9,640,988**	**9,640,988**
		Non current assets			
13,061	13,061	Debtors	23	10,688	10,688
719	719	Computer systems		486	486
690	-	Share Capital		690	-
-	-	Retirement benefit obligation	29	-	4,866
-	875	Deferred tax	28a	-	-
14,470	**14,655**			**11,864**	**16,040**
		Current assets			
3,870	3,870	The City of Edinburgh Council	27	2,311	2,311
68,241	69,098	Cash balances	20, 27	44,224	45,703
20,042	20,473	Debtors	24	21,221	21,891
92,153	**93,441**			**67,756**	**69,905**
		Non current liabilities			
-	(3,498)	Retirement benefit obligation	29	-	-
-	-	Deferred tax	28a	-	(213)
-	(14)	Creditors		-	(16)
-	**(3,512)**			**-**	**(229)**
		Current liabilities			
(23,738)	(23,742)	Creditors	25	(25,395)	(26,073)
(23,738)	**(23,742)**			**(25,395)**	**(26,073)**
9,607,286	**9,605,243**	**Net assets for the fund**		**9,695,213**	**9,700,631**

LOTHIAN PENSION FUND ACCOUNTS

The unaudited accounts were issued on 21 June 2023.

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
21 June 2023

Notes to the net asset statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

The statement of accounting policies for all Funds can be found on page 147.

2 Lothian Pension Fund Group

Basis of consolidation, presentation of financial statements and notes

Commencing with the year ended 31 March 2018, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 - Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Because the controlled entities activities are primarily focused on the provision of services to the Fund, its consolidation has a limited impact on the figures included in the Fund Account and Net Assets Statement of Lothian Pension Fund. An additional column has been added in both the Fund Account and Net Assets Statement, with the figures prior to consolidation being identified as "Parent" and after consolidation as "Group". In the notes to the accounts, where there is a difference between the parent and group figures they are identified as either "Parent " or "Group".

Notes	Description
27	Related party transactions and balances Describes transactions during the year and balances at year end which relate to the parent and the companies.
28a	Consolidated Lothian Pension Fund group - LPFE Limited - deferred tax Describes the deferred tax non-current asset of the Company. See 2 f) ii) in the Statement of Accounting Policies and General notes for more information.
28b	Consolidated Lothian Pension Fund group - LPFE Limited and LPFI Limited - share capital Describes the share capital of the Company.
29	Retirement benefits obligation - group Provides the information on the retirement benefits obligation of the Company as required under IAS19 - Employee Benefits. See 2 q) ii) in the Statement of Accounting Policies and General notes for more information.

The consolidation of the group accounts was prepared prior to the approval by the Boards of LPFE Limited and LPFI Limited their respective audited financial statements for 2022/23. The figures used in the consolidation are therefore from the unaudited financial statements of both companies.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

3 Events after the reporting date

There have been no events since 31 March 2023, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

4 Contributions from employers

The total contributions receivable for the administering authority, other scheduled bodies and admitted bodies were as follows:

	2021/22	2022/23
By category	**£000**	**£000**
Primary Contribution (future service)	180,554	195,628
Secondary Contribution (past service deficit)	5,433	5,399
Strain costs	3,209	705
Cessation Contributions	9,748	135
	198,944	**201,867**

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	71,515	75,947
Other Scheduled Bodies	95,937	104,123
Community Admission Bodies	30,123	20,190
Transferee Admission Bodies	1,369	1,607
	198,944	**201,867**

Employer contributions, as calculated by the Fund Actuary, comprise two elements:

- An estimate of the cost of benefits accruing in the future, referred to as the primary contribution rate previously referred to as the “future service rate”, which is expressed as a percentage of payroll

- an adjustment for the solvency of the Fund based on the benefits already accrued, known as the secondary contribution rate. If there is a surplus, there may be a contribution reduction; if there is a deficit there may be a contribution increase. For all employers, contributions to cover any Past Service Deficit are expressed as a fixed monetary sum, rather than as a percentage of payroll and are payable on a monthly basis that is one twelfth of the annual total.

Where an employer makes certain decisions, which result in benefits being paid early, this results in a strain on the Fund. The resulting pension strain costs are calculated and recharged in full to that employer.

Any employer that ceases to have at least one actively contributing member is required to pay cessation contributions.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

5 Contributions from members

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	18,969	20,488
Other Scheduled Bodies	27,596	29,886
Community Admission Bodies	6,212	6,521
Transferee Admission Bodies	424	488
	53,201	**57,383**

6 Transfers in from other pension schemes

	2021/22	2022/23
	£000	**£000**
Group transfers	1,649	6,551
Individual transfers	3,481	-
	5,130	**6,551**

7 Pensions payable

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	84,339	87,871
Other Scheduled Bodies	91,909	98,401
Community Admission Bodies	18,537	19,537
Transferee Admission Bodies	331	416
	195,116	**206,225**

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows employers to pay additional pensions on a voluntary basis.

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. The use of a Fund bank account for these "unfunded transfer payments" is prohibited. Accordingly, for reasons of efficiency and simplicity, the pension payroll is combined and both funded and unfunded pension payments are made through a general fund bank account of the administering authority, City of Edinburgh Council. For the funded LGPS payments, the Fund transfers money from its own bank account to that of the City of Edinburgh Council's to cover the value of these benefits. For the unfunded payments, these are recharged to the employer body (or successor) which originally granted the discretionary benefits.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

As "unfunded payments" are discretionary benefits, they are not relevant to the sums disclosed in the Fund accounts. As such, Lothian Pension Fund provides payment and billing services to certain employers on a no charge agency agreement basis.

8 Lump sum retirement benefits payable

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	17,553	19,160
Other Scheduled Bodies	28,214	29,727
Community Admission Bodies	4,905	3,221
Transferee Admission Bodies	371	433
	51,043	**52,541**

9 Lump sum death benefits payable

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	2,985	3,421
Other Scheduled Bodies	4,294	5,351
Community Admission Bodies	382	708
Transferee Admission Bodies	1	9
	7,662	**9,489**

10 Transfers out to other pension schemes

	2021/22	2022/23
	£000	**£000**
Group transfers	-	-
Individual transfers	5,874	11,689
	5,874	**11,689**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11a Administrative expenses

	LPF Parent 2021/22	LPF Group 2021/22	LPF Parent 2022/23	LPF Group 2022/23
	£000	£000	£000	£000
Employee costs	1,775	2,042	1,937	2,263
System costs	462	467	508	514
Actuarial fees	96	96	248	248
External/Internal audit fees	74	79	84	88
Legal fees	24	24	22	23
Printing and postage	158	158	119	119
Depreciation	81	81	108	108
Office costs	85	85	97	97
Sundry costs less sundry income	65	93	79	88
IAS19 retirement benefit adjustments - see note 29	-	(762)	-	(2,839)
Deferred tax on retirement benefit obligation - see note 28	-	65	-	369
Corporation tax	-	11	-	10
	2,820	2,439	3,202	1,088

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

COLLEAGUE PROFILE EMMA BURNS, GOVERNANCE OFFICER

Emma joined LPF in September 2022 as Governance Officer. Emma assists with the Governance of the scheme and helps to run the Pension Board and Committee. Emma says:

"From the very first day of joining the organisation I have received such a warm welcome and really appreciated the effort from colleagues in making me feel included and part of the team. The role is very busy, varied and interesting, with lots of opportunity to build knowledge and new skills."

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses

	LPF Parent 2021/22	LPF Group 2021/22	LPF Parent 2022/23	LPF Group 2022/23
	£000	£000	£000	£000
External management fees:				
invoiced	3,213	3,213	3,175	3,175
deducted from capital (direct investment)	23,772	23,772	24,525	24,525
deducted from capital (indirect investment)	827	827	606	606
Securities lending fees	81	81	107	107
Transaction costs - Equities	1,624	1,624	2,249	2,249
Property operational costs	1,770	1,770	7,164	7,164
Third party - Invest property service charge expense	5,964	5,964	8,266	8,266
Third party - Invest property service charge income	(5,964)	(5,964)	(8,266)	(8,266)
Employee costs	2,938	3,477	3,876	4,589
Custody fees	426	426	366	366
Engagement and voting fees	112	112	89	89
Performance measurement fees	98	98	117	117
Consultancy fees	110	110	86	86
Research fees	442	442	503	503
System costs	909	918	1,123	1,136
Legal fees	275	358	337	447
Depreciation	170	170	172	172
Office costs	127	127	153	153
Sundry costs less sundry income	289	(866)	294	(1,111)
IAS19 retirement benefit adjustments - see note 30	-	(1,253)	-	(5,525)
Deferred tax on retirement benefit obligation - see note 29	-	108	-	719
Corporation tax	-	-	-	-
Corporation tax gains utilised by CEC group	-	20	-	28
	37,183	**35,534**	**44,942**	**39,595**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses (cont.)

2022/2023	Total £000	Management /Expense fees £000	Performance related fee £000	Transaction costs £000
Bonds	109	109	-	-
Equities	5,321	3,079	(7)	2,249
Pooled investment vehicles	25,167	16,073	9,062	32
Property	7,164	7,164	-	-
Cash and FX contacts	65	65	-	-

2021/2022	Total £000	Management /Expense fees £000	Performance related fee £000	Transaction costs £000
Bonds	109	109	-	-
Equities	5,249	3,506	119	1,624
Pooled investment vehicles	24,114	15,234	8,848	32
Property	1,770	1,770	-	-
Cash and FX contacts	45	45	-	-

Investment costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to both funds are allocated based on the value of the Funds as at the year end.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 14 - Reconciliation of movements in investments and derivatives).

The external investment management fees (deducted from capital) above include £9.1m (£9.1m direct) in respect of performance-related fees compared to £9m in 2021/22 (£8.9m direct, £0.1m indirect).

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

It should be noted that Lothian Pension Fund's disclosure on investment management fees exceed CIPFA's "Accounting for Local Government Pension Scheme Management Costs" revised guidance on cost transparency which came into effect from 1 April 2016. Consistent with previous years, the Fund recognises fees deducted from investments not within its direct control (such as fund of fund fees) to give a full picture of its investment management costs. Further details can be found in the "Investment management cost transparency" section of the Management Commentary. This further disclosure highlights an extra £0.6m in costs (2022 £0.8m).

11c Total management expenses

In accordance with CIPFA guidance, the analysis below considers the combined administration and investment management expenses in notes 11b and c and splits out the costs to include a third category covering oversight and governance expenditure.

	LPF Parent 2021/22	LPF Group 2021/22	LPF Parent 2022/23	LPF Group 2022/23
	£000	£000	£000	£000
Administrative costs	2,534	2,032	2,687	703
Investment management expenses	34,514	34,185	41,447	38,332
Oversight and governance costs	2,953	1,756	4,010	1,648
	40,001	**37,973**	**48,144**	**40,683**

JIM ANDERSON

"Having once again become chair of the Pension Board I wish to thank the Board members for their continuing support. The Board are key to providing 'oversight and assurance' and have been reassured by the efforts of the Fund. The Board has supported the Committee in its consideration of the investment strategy, governance, administration, communications, Project Forth and LGPS regulation changes. In addition, the Board reviewed operational improvements including the 'Members Self Service' [website] facility. The Board has worked tirelessly in its members interests in what was yet another challenging year."

Chair of the Pension Board

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12 Investment income

	2021/22	2022/23
	£000	£000
Income from bonds	4,586	7,645
Dividends from equities	168,743	192,831
Unquoted private equity and infrastructure	85,598	118,735
Income from pooled investment vehicles	2,805	2,507
Gross rents from properties	22,500	25,983
Interest on cash deposits	57	4,968
Stock lending and sundries	407	536
	284,696	**353,205**
Irrecoverable withholding tax	(8,686)	(14,091)
	276,010	**339,114**

Included within the dividend from equities income for the year is cross border withholding tax yet to be received. The Fund’s custodian Northern Trust manages this process and due to the high certainty of success, it's assumed that the Fund will make full recovery of these reclaims. For the period of 2022/23 £8,041k of the stated income relates to tax yet to be received. At 31 March 2023 £29,014k (including prior periods) of investment income receivable related to cross border withholding tax. The Fund monitors these claims to ensure its optimum tax efficiency and provides an annual progress report to the Pensions Audit Sub-Committee.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

13 Net investment assets

	31 March 2022	31 March 2023
Investment assets	**£000**	**£000**
Bonds		
Public sector fixed interest	157,498	243,549
Public sector index linked gilts quoted	957,545	1,198,067
	1,115,043	**1,441,616**
Equities		
Quoted	5,434,373	5,469,139
	5,434,373	**5,469,139**
Pooled investment vehicles		
Private equity, infrastructure, private debt & timber	1,344,172	1,711,625
Property	116,925	82,890
Other	203,941	177,904
	1,665,038	**1,972,419**
Properties		
Direct property	431,303	365,745
	431,303	**365,745**
Derivatives		
Derivatives - forward foreign exchange	-	2,549
	-	**2,549**
Cash deposits		
Deposits	837,138	341,424
	837,138	**341,424**
Other investment assets		
Due from broker	1,417	908
Dividends and other income due	44,555	56,574
	45,972	**57,482**
Total investment assets	**9,528,867**	**9,650,374**
Investment liabilities		
Derivatives		
Derivatives - forward foreign exchange	(2,375)	-
	(2,375)	**-**
Other financial liabilities		
Due to broker	(2,091)	(9,386)
	(2,091)	**(9,386)**
Total investment liabilities	**(4,466)**	**(9,386)**
Net investment assets	**9,524,401**	**9,640,988**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2022*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2023
	£000	£000	£000	£000	£000
Bonds	1,115,043	1,487,342	(882,212)	(278,557)	1,441,616
Equities	5,434,373	980,072	(985,504)	40,198	5,469,139
Pooled investment vehicles	1,665,038	392,099	(185,094)	100,376	1,972,419
Property	431,303	17,016	(6,437)	(76,137)	365,745
Derivatives - futures	-	-	-	-	-
Derivatives - forward foreign exchange	(2,375)	7,468	(2,061)	(483)	2,549
	8,643,382	**2,883,997**	**(2,061,308)**	**(214,603)**	**9,251,468**
Other financial assets / liabilities					
Cash deposits*	837,138			26,512	341,424
Broker balances*	(674)			36	(8,478)
Investment income due*	44,555			-	56,574
	881,019			**26,548**	**389,520**
Net financial assets	**9,524,401**			**(188,055)**	**9,640,988**

** As per CIPFA disclosures the change in market value intentionally does not balance opening/closing market values.*

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14a Reconciliation of movement in investments and derivatives (cont.)

	Market value at 31 March 2021*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2022
	£000	£000	£000	£000	£000
Bonds	689,792	638,774	(228,844)	15,320	1,115,043
Equities	5,044,875	1,014,338	(1,127,432)	502,592	5,434,373
Pooled investment vehicles	1,615,521	240,695	(274,517)	83,339	1,665,038
Property	366,125	380	(7,982)	72,780	431,303
Derivatives - futures	-	-	-	-	-
Derivatives - forward foreign exchange	625	24	(1,790)	(1,234)	(2,375)
	7,716,938	**1,894,211**	**(1,640,565)**	**672,797**	**8,643,382**
Other financial assets / liabilities					
Cash deposits*	933,452			3,717	837,138
Broker balances*	(87,278)			(46)	(674)
Investment income due*	33,602			-	44,555
	879,776			**3,671**	**881,019**
Net financial assets	**8,596,714**			**676,468**	**9,524,401**

** As per CIPFA disclosures the change in market value intentionally does not balance opening/closing market values*

14b Reconciliation of fair value measurements within level 3

	Market value at 31 March 2022	Level 3 transfers		Purchases at cost & derivative payments	Sale & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2023
Pooled investments	£000	in	out	£000	£000	£000	£000	£000
Infrastructure	932,043	-	-	317,032	(94,671)	118,858	25,455	1,298,717
Property	66,667	-	-	12,152	(36,883)	(27,131)	29,035	43,840
Private equity	43,835	-	-	(8)	(13,552)	(6,216)	8,606	32,665
Timber	107,614	-	-	27,910	(2,495)	(19,966)	(2,005)	111,058
Private debt	260,680	-	-	32,229	(32,508)	18,192	(9,409)	269,184
Freehold property	431,303	-	-	17,016	(6,437)	(76,137)	-	365,745
	1,842,141	**-**	**-**	**406,331**	**(186,546)**	**7,600**	**51,682**	**2,121,209**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

15 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2023.

Contract settlement within	Currency bought	Currency sold	Local currency bought	Local currency sold	Asset value	Liability value
			000	000	£000	£000
Up to one month	GBP	AUD	53,113	93,335	2,549	-
One to six months	CHF	USD	-	-	-	-
One to six months	USD	CHF	-	-	-	-
Open forward currency contracts at 31 March 2023					2,549	-
Net forward currency contracts at 31 March 2023						2,549

Prior year comparative

Open forward currency contracts at 31 March 2022	-	(2,375)
Net forward currency contracts at 31 March 2022		(2,375)

The above table summarises the contracts held by maturity date; all contracts are traded on an over-the-counter basis.

To maintain appropriate diversification of investments in the portfolio and take advantage of wider opportunities, the Lothian Pension Fund invests over half of the fund in overseas markets. A currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the extent to which the Fund is exposed to certain currency movements.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates

Manager	Mandate	Market value at 31 March 2022 £000	% of total 31 March 2022 %	Market value at 31 March 2023 £000	% of total 31 March 2023 %
In-house	UK all cap equities	265,832	2.8	295,441	3.1
In-house	UK mid cap equities	110,344	1.2	99,315	1.0
Total UK equities		**376,176**	**4.0**	**394,756**	**4.1**
In-house	European ex UK equities	250,266	2.6	202,168	2.1
In-house	US equities	359,548	3.8	372,923	3.9
Total regional overseas equities		**609,814**	**6.4**	**575,091**	**6.0**
In-house	Global high dividend	1,289,083	13.5	1,342,866	13.9
In-house	Global low volatility	1,285,006	13.5	1,272,317	13.2
In-house	Global multi factor value	1,177,932	12.4	1,196,232	12.4
In-house	Global quality	-	-	63,719	0.7
Harris	Global equities	132,500	1.4	138,204	1.4
Nordea	Global equities	351,784	3.7	329,513	3.4
Baillie Gifford	Global equities	178,332	1.9	170,952	1.8
Total global equities		**4,414,637**	**46.4**	**4,513,803**	**46.8**
In-house	Currency hedge	(2,374)	-	2,549	-
Total currency overlay		**(2,374)**	**-**	**2,549**	**-**
Total listed equities		**5,398,253**	**56.8**	**5,486,199**	**56.9**
In-house	Private equity unquoted	43,946	0.5	32,744	0.3
In-house	Private equity quoted	123,673	1.3	75,720	0.8
Total private equity		**167,619**	**1.8**	**108,464**	**1.1**
Total equity		**5,565,872**	**58.6**	**5,594,663**	**58.0**
In-house	Index linked gilts	497,000	5.2	756,003	7.8
In-house	Normal gilts	-	-	51,285	0.5
In-house	Mature employer gilts	316,605	3.3	262,748	2.7
Total inflation linked assets		**813,605**	**8.5**	**1,070,036**	**11.0**
In-house	Indirect property	116,925	1.2	82,890	0.9
In-house	Property	459,147	4.8	405,137	4.2
In-house	Infrastructure unquoted	932,043	9.8	1,298,717	13.5
In-house	Infrastructure quoted	28,666	0.3	24,845	0.3
In-house	Timber	107,614	1.1	111,058	1.2
Total real assets		**1,644,395**	**17.2**	**1,922,647**	**20.1**
Baillie Gifford	Corporate bonds	33,412	0.4	29,683	0.3
In-house	Private debt	260,680	2.7	269,185	2.8
In-house	Sovereign bonds	298,857	3.1	184,978	1.9
In-house	Investment Grade Credit	134,640	1.4	121,334	1.3
Total debt assets		**727,589**	**7.6**	**605,180**	**6.3**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates (cont)

		Market value at 31 March 2022	% of total 31 March 2022	Market value at 31 March 2023	% of total 31 March 2023
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	Cash	772,033	8.1	448,096	4.6
In-house	Transitions	907	0.0	366	0.0
Total cash and sundries		**772,940**	**8.1**	**448,462**	**4.6**
Net financial assets		**9,524,401**	**100.0**	**9,640,988**	**100.0**

Over the last two years no single investment represented more than 5% of the net assets of the Fund.

17 Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2023, £92.5m (2022 £167.6m) of securities were released to third parties. Collateral valued at 105.1% (2022 107.3%) of the market value of the securities on loan was held at that date.

18 Property holdings

	2021/22	2022/23
	£000	**£000**
Opening balance	366,125	431,303
Additions	380	17,016
Disposals	(7,982)	(6,437)
Net change in market value	72,780	(76,137)
Closing balance	**431,303**	**365,745**

As at 31 March 2023, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. As at 31 March 2023, the Fund had no contractual obligation for any further construction costs.

The future minimum lease payments receivable by the Fund are as follows:

	2021/22	2022/23
	£000	**£000**
Within one year	19,702	20,158
Between one and five years	65,976	67,636
Later than five years	102,119	106,764
	187,797	**194,558**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19 Financial instruments

19a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund accounting records, hence there's no difference between the carrying value and fair value.

Classification of financial instruments - parent	31 March 2022			31 March 2023		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Investment assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	1,115,043	-	-	1,441,616	-	-
Equities	5,434,373	-	-	5,469,139	-	-
Pooled investments	1,665,038	-	-	1,972,419	-	-
Property leases	-	-	-	-	-	-
Derivative contracts	-	-	-	2,549	-	-
Margin balances	-	-	-	-	-	-
Cash	-	837,138	-	-	341,424	-
Other balances	-	44,555	-	-	57,482	-
	8,214,454	**881,693**	**-**	**8,885,723**	**398,906**	**-**
Other assets						
City of Edinburgh Council	-	3,870	-	-	2,311	-
Cash	-	68,241	-	-	44,224	-
Share Capital	-	690	-	-	690	-
Debtors - current	-	20,042	-	-	21,221	-
Debtors - non-current	-	13,061	-	-	10,688	-
	-	**105,904**	**-**	**-**	**79,134**	**-**
Assets total	**8,214,454**	**987,597**	**-**	**8,885,723**	**478,040**	**-**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Classification of financial instruments - parent (cont)	31 March 2022			31 March 2023		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Financial liabilities Investment liabilities	£000	£000	£000	£000	£000	£000
Derivative contracts	(2,375)	-	-	-	-	-
Other investment balances	-	(674)	-	-	(9,386)	-
	(2,375)	**(674)**	**-**	**-**	**(9,386)**	**-**
Other liabilities						
Creditors	-	-	(23,738)	-	-	(25,395)
Liabilities total	**(2,375)**	**(674)**	**(23,738)**	**-**	**(9,386)**	**(25,395)**
Total net assets	**8,212,079**	**986,923**	**(23,738)**	**8,885,723**	**468,654**	**(25,395)**

	31 March 2022	31 March 2023
Total net financial instruments	**9,175,264**	**9,328,982**
Amounts not classified as financial instruments	432,022	366,231
Total net assets - parent	**9,607,286**	**9,695,213**

ANDY MCKINNELL

"Over the last five years I have provided guidance to the Pensions Committee and Pension Board in the exercise of their duties. The Independent Professional Observer role is an important one for LPF, as it strengthens LPF's oversight and governance arrangements, ensuring that its committee and pension board have access to independent expertise within a complex industry. It has been a pleasure to support both the Pension Committee and Pension Board to ensure that the best interests of LPF's members and employers remain the key driver for all the Fund's decision making. I will leave my role in September 2023 and wish LPF success going forward."

Lothian Pension Fund's Independent Professional Observer

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19a Classification of financial instruments (cont)

Classification of financial instruments - adjustments to parent to arrive at group	31 March 2022			31 March 2023		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Other assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash	-	857	-	-	1,479	-
Share capital	-	(690)	-	-	(690)	-
Debtors - current	-	430	-	-	772	-
Debtors - non-current	-	875	-	-	-	-
Debtors - non-current Retire. benefit obligation	-	-	-	-	4,866	-
	-	**1,472**	**-**	**-**	**6,427**	**-**
Assets total	**-**	**1,472**	**-**	**-**	**6,427**	**-**
-Other liabilities-						
Retire. benefit obligation	-	-	(3,498)	-	-	-
Creditors	-	-	(3)	-	(678)	-
Creditors - non current	-	-	(14)	-	(331)	-
Liabilities total	**-**	**-**	**(3,515)**	**-**	**(1,009)**	**-**
Total net assets	**-**	**1,472**	**(3,515)**	**-**	**5,418**	**-**
Total adjustments to net financial instruments			**(2,043)**			**5,418**
Total net assets - group			**9,605,243**			**9,700,631**

19b Net gains and losses on financial instruments

	2021/22	2022/23
	£000	**£000**
Designated as fair value through Fund Account	997,105	(138,466)
Loans and receivables	(11,464)	26,548
Financial liabilities at amortised cost	-	-
Total	**985,641**	**(111,918)**
Gains and losses on directly held freehold property	(16,405)	(76,137)
Change in market value of investments per fund account	**969,236**	**(188,055)**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19c fair value hierarchy

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that isn't considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation isn't based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unquoted private equity, infrastructure, timber and European real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19C fair value hierarchy (cont)

	31 March 2023			
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	£000	£000	£000	£000
Bonds	-	1,441,616	-	1,441,616
Equities	5,469,139	-	-	5,469,139
Pooled investment vehicles	27,093	189,861	1,755,465	1,972,419
Derivatives	2,549	-	-	2,549
Cash deposits	341,424	-	-	341,424
Investment income due	57,482	-	-	57,482
Non-financial assets at fair value through profit and loss				
Property	-	-	365,745	365,745
Total investment assets	**5,897,687**	**-**	**2,121,210**	**9,650,374**
Investment liabilities at fair value through Fund Account	**(9,386)**	**-**	**-**	**(9,386)**
Total investment liabilities	**(9,386)**	**-**	**-**	**(9,386)**
Net investment assets	**5,888,301**	**-**	**2,121,210**	**9,640,988**

	31 March 2022			
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	£000	£000	£000	£000
Bonds	-	1,115,043	-	1,115,043
Equities	5,434,373	-	-	5,434,373
Pooled investment vehicles	36,078	218,122	1,410,838	1,665,038
Derivatives	-	-	-	-
Cash deposits	837,138	-	-	837,138
Investment income due	44,555	-	-	44,555
Non-financial assets at fair value through profit and loss				
Property	-	-	431,303	431,303
Total investment assets	**6,352,144**	**1,333,165**	**1,842,141**	**9,527,450**
Investment liabilities at fair value through Fund Account	**(3,049)**	**-**	**-**	**(3,049)**
Total investment liabilities	**(3,049)**	**-**	**-**	**(3,049)**
Net investment assets	**6,349,095**	**1,333,165**	**1,842,141**	**9,524,401**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments

Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The Main investment strategy aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to employers. It achieves this by investing in a diverse range of assets to reduce risk to an acceptable level. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they're due to be paid.

Responsibility for the Fund's overall investment strategies rests with the Pensions Committee. The Joint Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Consideration of the Fund's investment risk is part of the overall risk management of the pensions operations. Risks are reviewed regularly to reflect changes in activity and market conditions.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall market risk of the Fund depends on the actual mix of assets and encompasses all the different elements of risk.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

The Fund manages these risks in a number of ways:

- Assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund
- Diversification of investments in terms of type of asset, investment styles, investment managers, geographical and industry sectors as well as individual securities taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which we invest
- Monitoring market risk and market conditions to ensure risk remains within tolerable levels
- Using equity futures contracts from time to time to manage market risk. Options are not used by the Fund.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table sets out the long-term volatility assumptions used in the Fund's asset-liability modelling undertaken by Isio investment advisers.

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.5%
Equities - Emerging Markets	28.0%
Private equity	26.0%
Timber and gold	18.0%
Secured loans	10.5%
Fixed interest Gilts	11.2%
Index-linked Gilts	11.8%
Infrastructure	12.0%
Property	13.0%
Cash	1.5%

Asset classes do not always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time.

The overall Fund benefits from "diversification" because it invests in different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests. The following table shows the risks at the asset class level and the overall Fund level, with and without allowance for correlation.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

	Value at 31 March 2023	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Equities - Developed Markets	4,968	51.5	20.5%	5,986.5	3,949.6
Equities - Emerging Markets	516	5.3	28.0%	660.0	371.3
Private equity	108	1.1	26.0%	136.7	80.3
Timber and gold	111	1.2	18.0%	131.0	91.1
Secured loan	420	4.4	10.5%	464.3	376.1
Fixed interest Gilts	51	0.5	11.2%	57.0	45.5
Index-linked Gilts	1,201	12.5	11.8%	1,342.9	1,059.5
Infrastructure	1,324	13.7	12.0%	1,482.9	1,165.1
Property	488	5.1	13.0%	551.1	424.3
Cash and forward foreign exchange	454	4.6	1.5%	460.3	446.7
Total [1]	**9,641**	**100.0**	**16.9%**	**11,272.8**	**8,009.4**
Total [2]			**13.0%**	**10,897.3**	**8,384.9**
Total [3]			**14.0%**	**10,992.0**	**n/a**

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme isn't measured in absolute terms, but relative to its liabilities [3].

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions, the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits, derivatives and securities lending are the major areas of credit exposure where credit risk isn't reflected in market prices.

Cash deposits

At 31 March 2023, cash deposits represented £380m, 3.92% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2023	Balances at 31 March 2022	Balances at 31 March 2023
Held for investment purposes		**£000**	**£000**
Northern Trust Global Investment Limited - liquidity funds	A2	9,439	9,673
Northern Trust Company - cash deposits	A2	494,418	54,715
UK Short-Term Bills and Notes	Aa3	160,901	130,016
The City of Edinburgh Council - treasury management	See below	162,690	139,838
Total investment cash		**827,448**	**334,242**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	68,241	44,224
JLL in-house property cash (Barclays)	A1	9,688	7,182
Total cash - parent		**895,689**	**378,466**
Cash held by LPFE/LPFI Limited			
Royal Bank of Scotland	A1	857	1,478
Total cash - group		**896,546**	**379,944**

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

	Moody's Credit Rating at 31 March 2023	Balances at 31 March 2022	Balances at 31 March 2023
Money market funds		**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	8,625	25,862
Goldman Sachs	Aaa-mf	6,034	859
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	18,614	6,644
Bank call accounts			
Bank of Scotland	A1	23,016	13
Royal Bank of Scotland	A1	1,045	6,851
Santander UK	A1	23	24
Barclays Bank	A1	12	13
Svenska Handelsbanken		13	8,467
HSBC Bank PLC	A1	2,590	8
Notice accounts			
HSBC Bank PLC	A1	20,422	4
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	103,035	27,636
Supranational Commerical Paper			
European Investment Bank	Aaa	17,758	-
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	29,744	107,681
		230,931	**184,062**

[1] Very few Local Authorities have their own credit rating, but they're generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2023 was 'Aa3').

The Council has in place institutional restrictions on investments and counterparty criteria. These include:

a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation
b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund
c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security, provided from maximum of £60 million/20% of assets under management (AUM) for institutions with the highest criteria to £10 million/5% of AUM for institutions with the lowest acceptable criteria.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund doesn't expect any losses from non-performance by any of its counterparties in relation to deposits.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

Securities lending

The Fund participates in a securities lending programme as described in note 17 (p90). The Fund is potentially exposed to credit risk in the event of the borrower of securities defaulting. This is mitigated by the contractual commitment that borrowers provide collateral in excess of 100% of the value of the securities borrowed. In addition, Northern Trust has signed an agreement requiring it to make good any losses arising from the lending programme.

Derivatives

The Fund transacts foreign currency derivatives over-the-counter and hence is exposed to credit risk in the event of a counterparty defaulting on the net payment or receipt that remains outstanding. This risk is minimised by the use of counterparties that are recognised financial intermediaries with acceptable credit ratings and by netting agreements. At 31 March 2023, the Fund was owed £2,549k on over-the-counter foreign currency derivatives.

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund isn't bound by any obligation to replenish its investments so isn't exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund won't be able to meet its financial obligations as they fall due. The Fund therefore ensures that there's adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund’s cash flows.

The majority (estimated to be approximately 78% (2022 81%)) of the Fund’s investments could be converted to cash within three months in a normal trading environment.

21 Actuarial statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

22 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £6,971m (2022 £10,049m). This figure is used for statutory accounting purposes by Lothian Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS102/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2022	31 March 2023
	% p.a.	% p.a.
Inflation / pensions increase rate	3.2	3.0
Salary increase rate	3.7	3.5
Discount rate	2.7	4.8

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% per annum. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2022		31 March 2023	
	Male	Female	Male	Female
Current pensioners	20.3 years	23.1 years	19.9 years	22.9 years
Future pensioners (assumed to be currently 45)	21.6 years	25.0 years	21.2 years	24.7 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

23 Non-current debtors	LPF Parent 31 March 2022	LPF Group 31 March 2022	LPF Parent 31 March 2023	LPF Group 31 March 2023
	£000	£000	£000	£000
Contributions due - employers' cessation	13,061	13,061	10,688	10,688
	13,061	**13,061**	**10,688**	**10,688**

In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, "Funding Agreements" have been put in place to allow certain former employers to repay cessation valuation debt over longer terms (up to twenty years), to avoid potential default or insolvency.

The above debtors all relate to community admission bodies.

24 Debtors	LPF Parent 31 March 2022	LPF Group 31 March 2022	LPF Parent 31 March 2023	LPF Group 31 March 2023
	£000	£000	£000	£000
Contributions due - employers	15,222	15,222	16,211	16,211
Contributions due - members	4,091	4,091	4,407	4,407
Benefits paid in advance or recoverable	166	166	-	-
Sundry debtors	158	628	248	1,003
Prepayments	363	366	253	270
LPFE & LPFI Limited Loan facility - see note 28	42	-	102	-
	20,042	**20,473**	**21,221**	**21,891**

25 Creditors	LPF Parent 31 March 2022	LPF Group 31 March 2022	LPF Parent 31 March 2023	LPF Group 31 March 2023
	£000	£000	£000	£000
Benefits payable	9,386	9,538	10,498	10,498
VAT, PAYE and State Scheme premiums	934	1,064	906	1,575
Contributions in advance	11,193	11,193	11,819	11,819
Miscellaneous creditors and accrued expenses	1,679	1,763	1,850	2,014
Office - operating lease	152	152	129	129
Corporation tax losses utilised from CEC group	-	-	-	38
Intra group creditor - see note 28	394	-	193	-
	23,738	**23,710**	**25,395**	**26,073**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

26 Additional voluntary contributions

Active members of the Lothian Pension Fund have the option to pay additional voluntary contributions (AVCs). These AVCs are invested separately from the main funds, securing additional benefits on a money purchase basis for those members that have elected to contribute. The investment of the AVCs is managed by Standard Life and Prudential.

In accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs aren't included in the pension fund financial statements.

	2021/22	2022/23
Total contributions during year for Lothian Pension fund	**£000**	**£000**
Standard Life	294	254
Prudential*	1,346	2,544
	1,640	**2,798**

	31 March 2022	31 March 2023
Total value at year end for Lothian Pension Fund	**£000**	**£000**
Standard Life	4,572	3,997
Prudential*	9,674	10,383
	14,246	**14,380**

**Figures provided are unaudited*

Prudential has been unable to supply contributions received data to the Fund for 2022/23, therefore total Prudential contributions shown above reflect the monthly contribution information provided by the Fund employers.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties

The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently, there's a strong relationship between the Council and the Pension Funds.

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2022	31 March 2023
	£000	£000
Year-end balance of holding account	3,870	2,311
	3,870	2,311

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2023, the fund had an average investment balance of £197.9m (2021/22 £222.9m). Interest earned was £3,857k (2021/22 £253k).

Year end balance on treasury management account

	31 March 2022	31 March 2023
	£000	£000
Held for investment purposes	162,691	139,838
Held for other purposes	68,241	44,224
	230,932	184,062

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)

Scheme employers

All scheme employers to the Fund are (by definition) related parties, a full list of employers can be found on page 120. The employer contributions for the ten largest scheme employers are as follows:

	31 March 2022	31 March 2023
	£000	£000
City of Edinburgh Council	71,515	75,947
West Lothian Council	29,898	32,549
East Lothian Council	18,253	20,607
Midlothian Council	16,441	18,027
Scottish Water	10,543	11,419
Scottish Police Authority	6,781	7,010
Edinburgh Napier University	6,080	6,650
Heriot-Watt University	3,402	3,720
Audit Scotland	2,792	2,886
Edinburgh College	2,748	2,877
Weslo Housing Management	5,405	-
Hanover Housing Association	2,868	-

Governance

As at 31 March 2023, all members of the Pensions Committee and the Pension Board were members of the Lothian Pension Fund, with the exception of Richard Lamont and Tony Beecher. One member of both the Pensions Committee and the Pension Board is in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pension Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

During the period from 1 April 2022 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2022	31 March 2023
	£000	£000
Short-term employee benefits	909	1,281
Post-employment benefits - employer pension contributions	111	119

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)

Key management personnel employed by LPFE had accrued pensions totalling £148,034 (1 April 2022: £134,724) and lump sums totalling £147,429 (1 April 2022: £131,304) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 174.

Remuneration of key management personnel employed by the City of Edinburgh Council is disclosed separately in the Financial Statements of the City of Edinburgh Council.

The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

LPFE Limited & LPFI Limited – loan facility

LPFE & LPFI Limited are wholly owned by the City of Edinburgh Council as administrating authority of Lothian Pension Fund, and have entered into a shareholder agreement with the Council to address governance matters. The companies have a loan facility agreement with the City of Edinburgh Council for the purpose of the provision of short-term working capital. The current agreement covers the period to 1 May 2023 and provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. In order to minimise the amount of interest payable, the companies return any cash not immediately required and this can result in short periods when the companies have returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Interest payable by LPFE Limited during the period was £3,313 of which £1,872 was due at the year end and for LPFI Limited their interest payable for the year was £1,913 of which £1,442 was due at the year end. At 31 March 2023, there was a zero balance on the loan facilities for LPFE Limited, and a £100,000 balance on the loan facilities for LPFI Limited.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund for the purposes of administering the Funds under a intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. During the year to 31 March 2023, the Fund was invoiced £6,076k (2022 £5,003k) for the services of LPFE Limited staff.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

28a Consolidated Lothian Pension Fund Group - LPFE Limited & LPFI Limited - deferred tax

Movement in deferred tax asset (Non-current asset)

	LPF Group 2021/22	LPF Group 2022/23
	£000	£000
Opening balance	1,047	875
Credit for year to Fund Account	(172)	(1,088)
Closing balance	**875**	**(213)**

Elements of closing deferred tax asset

	LPF Group 31 March 2022	LPF Group 31 March 2023
	£000	£000
Pension liability	875	(213)
	875	**(213)**

28b Shares in group companies - LPFE Limited & LPFI Limited

	31 March 2022	31 March 2023
	£	£
Allotted, called up and fully paid Ordinary shares of £1 each - LPFE Limited*	1	1
Allotted, called up and fully paid Ordinary shares of £1 each - LPFI Limited	690,378	690,378
	690,379	**690,379**

**One ordinary share of £1 was issued to Lothian Pension Fund at par value on incorporation. Due to the low value this does not show on the Net Assets Statement.*

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - Group

The retirement benefit obligation described in this note relates only to the employees of LPFE. This is because obligation in respect of the staff employed by the City of Edinburgh Council is accounted for in the Financial Statements of the Council.

On 1 May 2015, LPFE commenced trading and its staff transferred their employment from the City of Edinburgh Council to the Company on that date. At that time, the Company also entered into appropriate admission arrangements with the City of Edinburgh Council with respect to the transferring individuals continuing to be members of the Lothian Pension Fund and in relation to its obligations as an employer in that Fund.

The present value of the defined benefit obligation and related current and past service cost were measured using the Projected Unit Credit Method.

Fund assets

LPFE's share of the fair value of the Fund's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, was comprised as follows:

		Fair value at 31 March 2022	% of total 31 March 2022	Fair value at 31 March 2023	% of total 31 March 2023
Asset		**£000**	**%**	**£000**	**%**
Equity securities:	Consumer	2,016	12.0	2,195	12.0
	Manufacturing	2,168	13.0	2,468	14.0
	Energy and utilities	905	6.0	1,080	6.0
	Financial institutions	944	6.0	1,077	6.0
	Health and care	1,135	7.0	1,315	7.0
	Information technology	744	5.0	744	4.0
	Other	1,221	7.0	1,223	7.0
Debt securities:	Corporate Bonds	308	2.0	279	2.0
	UK Government	1,433	9.0	2,076	12.0
	Other	-	0.0	374	2.0
Private equity:	All	77	0.0	70	0.0
Real property:	UK property	866	5.0	806	5.0
	Overseas property	5	0.0	29	0.0
Investment funds and unit trusts:	Equities	294	2.0	252	1.0
	Bonds	767	5.0	518	3.0
	Infrastructure	1,661	10.0	2,552	14.0
Derivatives:	Foreign Exchange	1	0.0	1	0.0
Cash and cash equivalents	All	1,841	11.0	845	5.0
		16,385	**100.0**	**17,904**	**100.0**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Amounts recognised in the Net Assets Statement

	LPF Group 31 March 2022	LPF Group 31 March 2023
	£000	£000
Fair value of Fund assets	16,385	17,904
Present value of Fund liabilities	(19,883)	(13,038)
	(3,498)	**4,866**

Movement in the defined benefit obligation during the period

	LPF Group 2021/22	LPF Group 2022/23
	£000	£000
Brought forward	19,361	19,883
Current service cost	1,813	1,930
Past service cost	59	-
Interest cost on obligation	418	576
Fund participants contributions	279	343
Benefits paid	(67)	(124)
Actuarial losses arising from changes in financial assumptions	(1,894)	(10,309)
Actuarial losses arising from changes in demographic assumptions	(119)	(119)
Other actuarial losses	33	858
Balance at year end	**19,883**	**13,038**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Movement in the fair value of Fund assets during the period

	LPF Group 2021/22	LPF Group 2022/23
	£000	£000
Brought forward	13,848	16,385
Benefits paid	(67)	(124)
Interest income on Fund assets	293	464
Contributions by employer	716	814
Contributions by member	279	343
Other gains / (losses)	-	-
Return on assets excluding amounts included in net interest	1,316	22
Balance at year end	**16,385**	**17,904**

Amounts recognised in the Fund Account

	LPF Group 2021/22	LPF Group 2022/23
	£000	£000
Interest received on Fund assets	(293)	(464)
Interest cost on Fund liabilities	418	576
Current service costs	1,813	1,930
Past service costs	59	-
Employer contributions	(716)	(814)
Actuarial gain/(loss) due to re-measurement of defined benefit obligation	(1,980)	(9,570)
Return on Fund assets (excluding interest above)	(1,316)	(22)
Net cost recognised in Fund Account	**(2,015)**	**(8,364)**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Principal actuarial assumptions used in this valuation	**31 March 2022**	**31 March 2023**
	% p.a.	**% p.a.**
Inflation / pensions increase rate	3.2	3.0
Salary increase rate	3.7	3.5
Discount rate	**2.8**	**4.8**

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there's an equal chance of actual experience being better or worse than the assumptions proposed.

The financial assumptions used for reporting in the financial statements are the responsibility of the employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of a similar magnitude. There's also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2022		**31 March 2023**	
	Male	**Female**	**Male**	**Female**
Current pensioners	20.3 years	23.1 years	19.9 years	22.9 years
Future pensioners	21.6 years	25.0 years	21.2 years	24.7 years

Expected employer contributions to the defined benefit plan for the year ended 31 March 2024 are £814k, based on a pensionable payroll cost of £4,499k.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

30 Contractual commitments

Investment commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the private equity, timber, property and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, taking place over a number of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

	31 March 2022	31 March 2023
	£000	£000
Outstanding investment commitment	262,578	294,486
	262,578	**294,486**

Office accommodation - 144 Morrison Street, Edinburgh

The Fund is committed to making the following future payments.

	31 March 2022	31 March 2023
	£000	£000
Within one year	118	118
Between one and five years	355	355
After five years	311	193
	784	**666**
Recognised as an expense during the year	**95**	**95**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contingent assets and liabilities

Contribution refunds

At 31st March 2023, Lothian Pension Fund had £1,878k (2022: £1,659k) in unclaimed refunds due to members.

Co-investment deal abort costs

At 31 March 2023 the Fund had entered into negotiations for a private debt investment which it is exposed to the potential risk of investment abort costs. Lothian Pension Fund's exposure to this is approximately £2k.

Employer cessations

As stated in note 23, "In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, "Funding Agreements" have been put in place with certain former employers to repay cessation valuation debt". In exceptional circumstances, this includes "repayment of less than the cessation debt in order to avoid employer insolvency, with an appropriate agreement which allows the Fund to revisit the repayment of the remaining debt at a future date (i.e. the debt would be a contingent liability and hence not recognised on an employer's balance sheet); and seeking, where appropriate, suitable "anti-embarrassment" provisions in legal agreement covering future increase in employer asset values". At 31 March 2023, such contingent assets of the Fund totalled £3,622k and the fund has secured first ranking security over two employer property assets and second ranking security over a further two employer property assets.

EU Tax claims & income recovery

The Fund participates in various claims to recover withheld investment income. EU tax claims relate to the recovery of tax deducted from dividend payments prior to receipt or payable tax credits thereon. Claims with a value of £4.9m related to Manufactured Overseas Dividends have been removed from the outstanding claims. The remaining claims relate to "Fokus Bank". Given the high level of uncertainty as to the eventual success of such claims from EU tax authorities, no accrual of income is made in the financial statements. The value of these outstanding claims is approximately £5.4m. To date, the amount of tax recovered exceeds the cost of pursuing claims. Legal costs are shared across a pool of claimants and the Fund has the right to cease participation without incurring further costs. An annual progress report is provided to Pensions Audit Sub-Committee.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contingent assets and liabilities (cont)

Variable pay arrangements

In 2018/19 the company introduced three variable pay schemes, two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle staff to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 January to 31 December with the award then vesting over three years. The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met. Payment one for the 2022/23 year, payment two for the 2021/22 year and payment three for the 2020/21 year were made in January 2023. A liability has been raised at 31 March 2023 for the two months of service for the second and third instalment of 2022/23 and third instalment of 2021/22 which the employees have delivered with regards to the second and third payments in the scheme.

In the event that all the staff involved in the arrangements at 31 December 2022 remain in the company's employment there's a contingent liability of £511,423 in excess of the current and non-current liabilities, as recognised in these financial statements in accordance with IAS19. This amount would be payable over two years.

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019 a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 4 August 2020, the Scottish Public Pensions Agency (SPPA) issued a statutory consultation on the proposed remedy, with this closing in October 2020. As anticipated, it's proposed that a comparison will be made between the benefits payable under the current rules with the entitlements which would have been paid if the Scheme had not changed in 2015, and with any higher sum being paid to the member. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Many members benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced. As the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementation of the remedy is expected to be extremely challenging from both administration and communications perspectives. SPPA has not yet published its formal response to the consultation

It's anticipated that rectification regulations should come into force from the start of October 2023.

The Fund's IAS26 reporting from its actuary, as disclosed in Note 22, takes into account the appeal decision and the proposed remedy.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Guaranteed Minimum Pension (GMP) Equalisation - Lloyds ruling on historic transfers

On 20 November the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers between 17 May 1990 - 5 April 1997 GMPs to be equalised, even if they were taken as long ago as 1990. Schemes will be expected to pay a top-up to receiving scheme with interest at Bank base rate +1%. There are limited exceptions that don't require a top-up, but it's not obvious within the judgement that there's to be any blanket exception on the application of this ruling to public sector schemes.

It's not yet clear what impact this will have for the LGPS and the Fund is awaiting further guidance before taking any further action.

Contingent Value Right (CVR)

Following the take-over and delisting of one of the Fund's holdings in Abiomed by Johnson & Johnson in 2022 the Fund received a cash payment and one CVR with the entitlement of up to $35 per share if certain commercial and clinical milestones are achieved in the future. The CVR is unlisted and non-tradeable.

The CVR is held at a valuation of zero within the portfolio and the Fund would receive £166.7k if the milestones are achieved.

32 Impairment losses

	2021/22	2022/23
	£000	£000
Bad Debt provision	370	361

During the year the Fund recognised impairment losses in respect of cessation contributions for a specific employer (Freespace).

Freespace voluntarily exited the Fund on 31 March 2020. An exit debt of £390,000 was identified by the actuary. Discussions took place with the company on repayment of exit debt and it was agreed that an initial payment of £75,000 would be made by Freespace. This was paid in September 2020, however a balance of £315,000 remains unpaid as the company entered liquidation on 22 October 2020.

The Fund submitted a claim to the liquidators (SKSi Limited) and adjudication on claims submitted by creditors was confirmed on 11 April 2023. Dividends to unsecured creditors (including the Fund) were calculated as 19.2p in the pound and therefore the Fund expects to receive £60.4k.

LOTHIAN PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of funding policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated September 2021. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the overall Fund;
- to ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund;
- to minimise the degree of short-term change in employer contribution rates;
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment;
- to help employers manage their pension liabilities; and
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 67% chance that the Fund will be fully funded over 20 years.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £7,479 million, were sufficient to meet 106% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £408 million. For the avoidance of doubt, these results are based on the assumptions that apply to the Fund's Primary investment strategy.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as outlined in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report.

LOTHIAN PENSION FUND ("THE FUND")
ACTUARIAL STATEMENT FOR 2022/23

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted under the Primary investment strategy for the 2020 valuation were as follows:

	31 March 2020
Financial assumptions	**% p.a.**
Discount rate	3.00%
Salary increase assumption	2.45%
Benefit increase assumption (CPI)	1.95%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.5 years	23.3 years
Future Pensioners *	22.0 years	25.2 years

**Currently aged 45*

Copies of the 2020 valuation report and Funding Strategy Statement are available on the Fund's website.

Experience over the period since 31 March 2020

Markets continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience) have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the previous formal valuation at 31 March 2020 due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
2 May 2023

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2023

Scheduled Bodies	
City of Edinburgh Council (The)	Scottish Fire and Rescue Service
East Lothian Council	Scottish Police Authority
Edinburgh College	Scottish Water
Heriot-Watt University	SESTRAN
Lothian Valuation Joint Board	VisitScotland
Midlothian Council	West Lothian College
Scotland's Rural College (SRUC)	West Lothian Council

Admitted Bodies	
Audit Scotland	Convention of Scottish Local Authorities
Baxter Storey	Improvement Service (The)
BEAR Scotland	Lothian Buses
Bellrock Property and Facilities Management	LPFE Limited
Canongate Youth Project	Melville Housing Association
Capital City Partnership	Mitie PFI
CGI UK Ltd	Morrison Facilities Services Ltd
Children's Hearing Scotland	Museums Galleries Scotland
Children's Hospice Association Scotland	Newbattle Abbey College
Citadel Youth Centre	North Edinburgh Dementia Care
Compass Chartwell	NSL Services Ltd

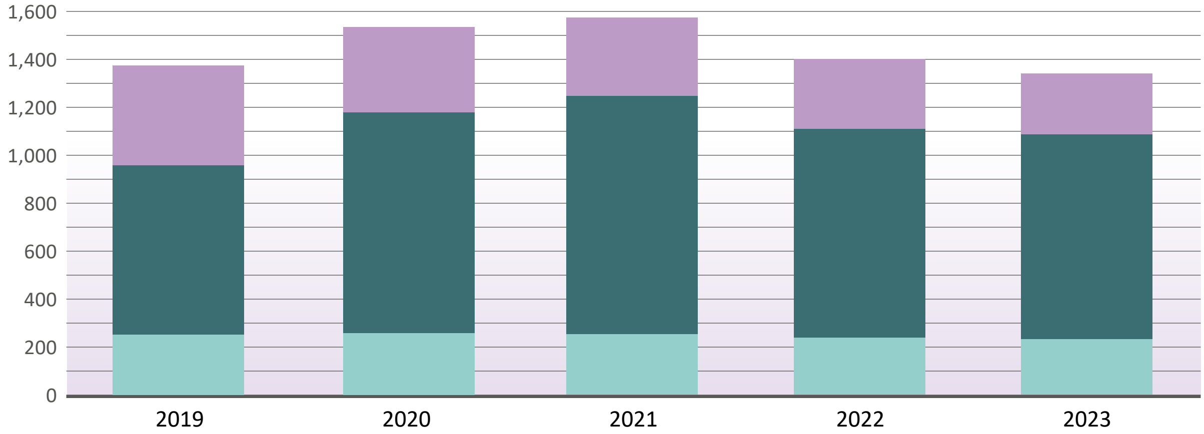
LOTHIAN PENSION FUND

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2023

Admitted Bodies	
Dacoll Limited	Pilton Equalities Project
Edinburgh Development Group	Queen Margaret University
Edinburgh Leisure	Royal Edinburgh Military Tattoo
Edinburgh Napier University	Royal Society of Edinburgh
ELCAP	Scotland's Learning Partnership
Enjoy East Lothian	Scottish Adoption Agency
Family Advice and Information Resource	Scottish Futures Trust
First Step	Scottish Schools Education Research Centre (SSERC)
Forth and Oban Ltd	Skanska UK
Handicabs (Lothian) Ltd	Sodexo Ltd
Health in Mind	St Andrew’s Children’s Society Limited
Heriot Watt University Students Association	Stepping Out Project
Homes for Life Housing Partnership	University of Edinburgh (Edinburgh College of Art)
Lothian Buses	West Lothian Leisure

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

SCOTTISH HOMES PENSION FUND MEMBERSHIP DATA



	2019	2020	2021	2022	2023
Active	-	-	-	-	-
Deferred	404	360	320	295	262
Pensioner	906	911	898	870	861
Dependant	263	262	252	238	228

Investment strategy

The Fund's last triennial actuarial valuation was dated 31 March 2020, at which point the actuary estimated Scottish Homes Pension Fund's funding level to be 117.7%, whilst the Fund's actuary, Hymans Robertson, reported a funding level of 118% in their funding update at 31 March. The Fund continues to have achieved its full funding objective ahead of the timeline originally agreed by the Scottish Government and the City of Edinburgh Council.

As the Fund is closed to new entrants and relatively mature, its objective is to minimise investment shortfall risk of assets relative to liabilities, in line with Scottish Government guidance. The Pensions Committee reaffirmed the following investment objective in June 2021: "To match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the Fund."

There was no change to the Fund's strategic allocation of 100% to bonds in the year to 31 March 2023, and the Fund invests solely in cash and bonds, specifically UK gilts, which move proportionately with liability values. The strategic and actual asset allocations for the Fund at the end of the 2022 and 2023 financial years are shown in the table above.

To ensure that invested assets are as closely matched with the liability profile as possible, the investment manager takes into consideration the expected duration of liabilities and whether they're fixed or inflation-linked in nature. The Fund's strategy is to match the cash flows of liabilities one year beyond the date of the next valuation and to match the duration of liabilities beyond that. This is because of the greater visibility of pension payments in the near term. The higher allocation to cash is due to the fully funded status of the Fund. As bonds redeem, the cash is reinvested in short-dated bonds, so that this has no impact on the duration matching with the liabilities.

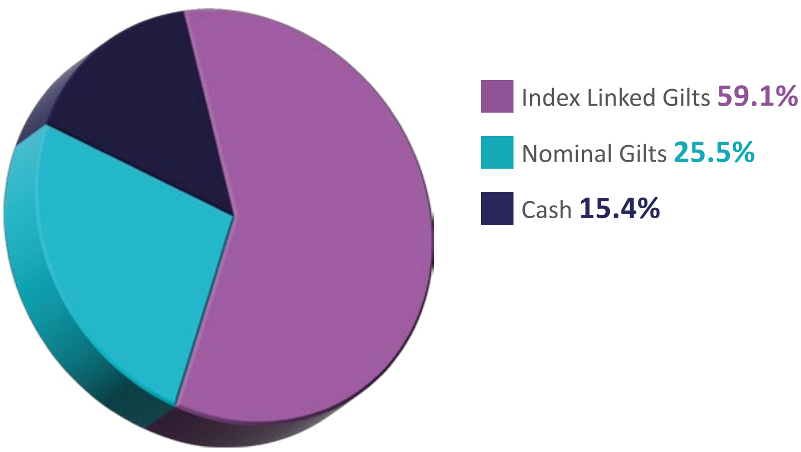
SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

Over the longer term, funding levels are subject to the actuary's financial and demographic assumptions of future experience, which are re-examined every three years. Hymans Robertson, the Fund's actuary, have stated that the funding level at end March 2023 (the next triennial valuation) is "likely to be fairly similar to that reported at the previous formal valuation".

Following the confirmation of the March 2023 valuation results, the portfolio holdings will be reviewed and rebalanced as required to ensure that they continue to cash flow and duration match the expected liabilities.

The actual asset allocation of the Fund is shown in the pie chart below:

ACTUAL ASSET ALLOCATION 31 MARCH 2023



Investment movements

As the Scottish Homes Pension Fund is relatively mature, it uses the proceeds of gilt coupons and redemptions to pay pensions. Cash or cash equivalents are held to enable pensions to be paid between the dates when gilts redeem. Being fully funded, the fund typically invests excess cash in short-dated bills and gilts. The cash balance at end March 2023 was equivalent to slightly more than two and a half years' pension payments, an increase on the prior year due to the run-off of maturing bonds.

The fund's assets have declined in value over the year, from £152.0 to £124.6m, due to higher discount rates as the BOE raised rates significantly to address high inflation. Secondly, £7.2m was paid out in pensions over the year. Adjusted for cash flow movements, the underlying assets decreased in value by -13.8% over the year.

As gilts are generally held to maturity and matched with liability payments, short term fluctuations in asset values don't impact the overall strategy. Liability values rise and fall, as they did this year, with asset values.

SCOTTISH HOMES PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2023

Financial statements

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income from investment dealings as well as the cost of providing benefits and administration of the Fund.

2021/22			2022/23
£000		Note	£000
	Income		-
-	Contributions from the Scottish Government	3	-
-	Transfers from other schemes		-
-			
	Less: expenditure		
6,360	Pension payments including increases		6,258
506	Lump sum retirement payments		769
8	Lump sum death benefits		14
-	Transfers to other schemes		17
(38)	Administrative expenses	4b	(35)
6,836			**7,023**
(6,836)	**Net withdrawals from dealing with members**		**(7,023)**
	Returns on investments		
1,923	Investment income	5	1,981
1,683	Change in market value of investments	6, 9b	(22,640)
(98)	Investment management expenses	4c	(88)
3,508	**Net returns on investments**		**(20,747)**
(3,328)	**Net increase/(decrease) in the Fund during the year**		**(27,770)**
157,542	Net assets of the Fund at 1 April 2022		154,214
154,214	**Net assets of the Fund at 31 March 2023**	**9**	**126,444**

SCOTTISH HOMES PENSION FUND
NET ASSETS STATEMENT AS AT 31 MARCH 2023

This statement provides a breakdown of type and value of all net assets at the year-end.

31 March 2022			31 March 2023
£000		Note	£000
	Investment Assets		
139,732	Bonds - UK		104,882
12,291	Cash Deposits		19,273
471	Other investment assets		447
152,494			**124,602**
	Investment Liabilities		
-	Other investment liabilities		-
-			-
152,494	**Net investment assets**	**7**	**124,602**
	Current assets		
183	The City of Edinburgh Council	17	265
1,551	Cash balances	10,15	1,597
1	Debtors	13	7
1,735			**1,869**
	Current liabilities		
(15)	Creditors	14	(27)
(15)			**(27)**
1,720	**Net current assets**		**1,842**
154,214	**Net assets of the Fund**	**9**	**126,444**

The unaudited accounts were issued on 21 June 2023.

Hugh Dunn

Service Director: Finance and Procurement

The City of Edinburgh Council

21 June 2023

Note to the net asset statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They don't take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

The statement of accounting policies for all Funds can be found on page 147.

2 Events after the reporting date

There have been no events since 31 March 2023, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

3 Contributions from the Scottish Government

The Scottish Homes Pension Fund (SHPF) is an employer pension fund for former employees of Scottish Homes (subsequently Communities Scotland), Scottish Special Housing Association and Homeless Action Scotland (HAS) (formerly The Scottish Council for Single Homeless).

The City of Edinburgh Council was selected by the Scottish Executive to be the administering authority of a fund created prior to the wind up of the Scottish Homes Residuary Body and therefore became the administering authority of SHPF on 1 July 2005, pursuant to section 2(a)(1A) of The Local Government Pension Scheme (Scotland) Amendment (No. 2) Regulations 2005 (SSI 315/2005) (the 2005 Regulations). Former employees of HAS were transferred to SHPF on 12 July 2018 following receipt of Scottish Ministers approval on 31 March 2020.

SHPF is a mature, non-active fund. The fund has no contributions paid into it by active members but consists only of deferred and pensioner members and therefore only pays money out to the pensioners.

Section 2 (1C) of the 2005 Regulations stipulates that:

"Where the actuary determines, after having regard to the existing and prospective liabilities of the fund, that additional funding is necessary to maintain the solvency of the fund (SHPF), then Scottish Ministers will make payments to the administering authority to maintain that solvency."

In this way, the Scottish Government acts as the ‘Guarantor’ for SHPF’s liabilities, as confirmed in the Funding Agreement, signed on behalf of the Scottish Executive and dated 6 July 2005.

As at the latest triennial actuarial valuation date of 31 March 2020, SHPF showed a funding surplus of £24.9million with a funding level of 117.7%, derived from a market valuation of assets of £166.1million and liabilities of £141.1million.

In accordance with the provisions of the Funding Agreement, the assets of SHPF are now invested entirely on a low risk basis. With a funding surplus, the Scottish Government isn't required to provide any contribution, but as Guarantor has the responsibility to pay towards the administration expenses of the Fund. This amounted to £90,000 per annum for years 31 March 2021 to 31 March 2024. Investment expenses are being met directly from the Fund’s surplus.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4a Total management expenses

	2021/22	2022/23
	£000	£000
Administrative costs	(45)	(48)
Investment management expenses	48	47
Oversight and governance costs	59	54
	62	**53**

This analysis of costs for the Scottish Homes Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined administration and investment management expenses in note 4b and c and splits out the costs to include a third heading covering oversight and governance expenditure.

4b Administrative expenses

	2021/22	2022/23
	£000	£000
Employee costs	29	29
System costs	11	12
Actuarial fees	1	3
External audit fees	1	1
Printing and postage	3	2
Depreciation	1	2
Office costs	1	1
Sundry costs less sundry income	5	5
	52	**55**
Administration fee received	(90)	(90)
	(38)	**(35)**

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. Lothian Pension Fund (inclusive of Scottish Homes Pension Fund) has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4c Investment management expenses

	2021/22	2022/23
	£000	£000
Transaction costs	-	-
Employee costs	47	49
Custody fees	4	5
Engagement and voting fees	2	1
Performance measurement fees	-	-
Consultancy fees	10	1
System costs	13	15
Legal fees	2	2
Office costs	2	2
Sundry costs less sundry income	18	13
	98	**88**

The Fund has not incurred any performance-related investment management fees in 2022/23 or 2021/22.

5 Investment income

	2021/22	2022/23
	£000	£000
Income from fixed interest securities	1,921	1,919
Interest on cash deposits and sundries	2	62
	1,923	**1,981**
Irrecoverable withholding tax	-	-
	1,923	**1,981**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

6 Reconciliation of movement in investments

	Market value at 31 March 2022	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2023
	£000	£000	£000	£000	£000
Bonds	139,732	27,913	(39,979)	(22,784)	104,882
	139,732	27,913	(39,979)	(22,784)	104,882
Other financial assets / (liabilities)					
Cash deposits*	12,291			144	19,273
Investment income due/amounts payable*	471			-	477
	12,762			144	19,720
Net financial assets	152,494			(22,640)	124,602

** Per CIPFA disclosure guidance the change in market value intentionally does not balance opening/closing market values*

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

	Market value at 31 March 2021	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2022
	£000	£000	£000	£000	£000
Bonds	140,723	-	(2,670)	1,679	139,732
	140,723	-	(2,670)	1,679	139,732
Other financial assets / (liabilities)					
Cash deposits*	14,906			4	12,291
Investment income due/amounts payable*	461			-	471
	15,367			4	12,762
Net financial assets	156,090			1,683	152,494

** Per CIPFA disclosure guidance the change in market value intentionally does not balance opening/closing market values*

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

7 Investment managers and mandates

		Market value at 31 March 2022	% of total 31 March 2022	Market value at 31 March 2023	% of total 31 March 2023
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	Ex-Equity	12	0.01	12	0.01
Total ex-equities		**12**	**0.01**	**12**	**0.01**
In-house	UK Index Linked Gilts	152,482	99.99	124,567	99.97
Total fixed interest and inflation linked bonds		**152,482**	**99.99**	**124,567**	**99.97**
In-house	Cash	-	-	23	0.02
Total cash		**-**	**-**	**23**	**0.02**
Net financial assets		**152,494**	**100.0**	**124,602**	**100.0**

8 Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2022	% of total 31 March 2022	Market value at 31 March 2023	% of total 31 March 2023
	£000	**%**	**£000**	**%**
UK Gov 0% T-BILL 26/06/2023	-	N/A	9,903	7.8
UK Gov 2.5% Index Linked 17/07/24	9,253	6.0	9,284	7.3
UK Gov 1.25% Index Linked 22/11/27	9,501	6.2	9,024	7.1
UK Gov 4.125% Index Linked 22/07/30	9,338	6.1	8,456	6.7
UK Gov 4.25% 07/06/32	8,535	5.5	7,309	5.8
UK Gov 0% T-BILL 11/09/2023	-	N/A	6,867	5.4
UK Gov 0.625% Index Linked 22/11/42	8,336	5.4	5,886	4.7
UK Gov 1.875% Index Linked 22/11/21	8,470	5.5	-	N/A

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9 Financial instruments

9a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there's no difference between the carrying value and fair value.

	31 March 2022			31 March 2023		
Financial assets	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Investment assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	139,732	-	-	104,882	-	-
Cash	-	12,291	-	-	19,273	-
Other balances	-	471	-	-	447	-
	139,732	**12,762**	**-**	**104,882**	**19,720**	**-**
Other assets						
City of Edinburgh Council	-	183	-	-	265	-
Cash	-	1,551	-	-	1,597	-
Debtors	-	1	-	-	7	-
	-	**1,735**	**-**	**-**	**1,869**	**-**
Assets total	**139,732**	**14,497**	**-**	**104,882**	**21,589**	**-**
Financial liabilities						
Other liabilities						
Creditors	-	-	(15)	-	-	(27)
Liabilities total	**-**	**-**	**(15)**	**-**	**-**	**(27)**
Total net assets	**139,732**	**14,497**	**(15)**	**104,882**	**21,589**	**(27)**

Total net financial instruments	**154,214**	**126,444**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9b Net gains and losses on financial instruments

	2021/22	2022/23
	£000	£000
Designated as fair value through Fund Account	1,679	(22,784)
Loans and receivables	4	144
Financial liabilities at amortised cost	-	-
Total	**1,683**	**(22,640)**

9c Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that isn't considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9c Valuation of financial instruments carried at fair value cont

The values of the investments in unquoted private equity, infrastructure, timber and real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

	31 March 2023			
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Bonds	-	104,882	-	104,882
Cash deposits	19,273	-	-	19,273
Investment income due/amounts payable	447	-	-	447
Total financial assets	**19,720**	**104,882**	**-**	**124,602**
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	**-**	**-**	**-**	**-**
Net investment assets	**19,720**	**104,882**	**-**	**124,602**

	31 March 2022			
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Bonds	-	139,732	-	139,732
Cash deposits	12,291	-	-	12,291
Investment income due/amounts payable	471	-	-	471
Total financial assets	**12,762**	**139,732**	**-**	**152,494**
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	**-**	**-**	**-**	**-**
Net investment assets	**12,762**	**139,732**	**-**	**152,494**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments

Risk and risk management

The Fund's primary aim is to ensure that all members and their dependents receive their benefits when they become payable. As directed by Scottish Government, with the 31 March 2020 actuarial valuation showing a funding level of 117.7%, the Fund is invested entirely in low risk assets. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they fall due.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Joint Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The market risk of the Scottish Homes Pension Fund has to some extent been mitigated, as the fund holds only gilts. Most of the reduction in market risk is relative to the liabilities, and not outright. The fund's assets have been matched to its liabilities as at the 31 March 2020 triennial valuation so that interest rate risk has been minimised, and as all assets held are valued in pound Sterling, no exchange risk occurs. A review of the asset matching of the Fund takes place following the publication of each triennial valuation, which is typically a year after the valuation point. Following the results of the 31 March 2023 triennial valuation, rebalancing is scheduled to take place early in the new financial year.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table below sets out the long-term volatility assumptions used by the Fund's investment adviser Isio:

Asset type	Potential price movement (+ or -)
Index-Linked Gilts	11.8%
Fixed Interest Gilts	11.2%
Cash	1.5%

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don't always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there's less risk of assets losing value at the same time. The overall Fund benefits from "diversification" because it invests in numerous different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests.

The following table shows the risks at the asset class level and the overall Fund level.

	Value at 31 March 2023	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Index-Linked Gilts	73	58.4	11.8%	82	64
Fixed Interest Gilts	32	25.6	11.2%	36	28
Cash	20	16.0	1.5%	20	20
Total [1]	**125**	**100.0**	**12.5%**	**138**	**112**
Total [2]			**9.1%**	**136**	**114**
Total [3]			**1.7%**	**127**	**n/a**

[1] No allowance for correlations between assets
[2] Including allowance for correlations between assets
[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets [1].

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme isn't measured in absolute terms, but relative to its liabilities [3]. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund’s entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits are the major areas of credit exposure where credit risk isn't reflected in market prices.

Cash deposits

At 31 March 2023, cash deposits represented £20.9m, 16.5% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2023	Balances at 31 March 2022	Balances at 31 March 2023
Held for investment purposes		**£000**	**£000**
Northern Trust Company - cash deposits	A2	8,935	16,771
UK Short-Term Bills and Notes	Aa3	3,356	2,502
		12,291	**19,273**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,551	1,597
Total cash		**13,842**	**20,870**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration. The Council has in place counterparty criteria.

The Council has in place institutional restrictions on investments and counterparty criteria. These include:

(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation
(b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund
(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security provided, from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

	Moody's Credit Rating at 31 March 2023	Balances at 31 March 2022	Balances at 31 March 2023
Money market funds	**£000**	**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	58	224
Goldman Sachs	Aaa-mf	41	7
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	125	58
Bank call accounts			
Bank of Scotland	A1	155	1
Royal Bank of Scotland	A1	7	59
Svenska Handelsbanken	A1	-	73
Notice accounts			
HSBC Bank PLC	A1	155	1
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	691	240
Supranational Commercial Paper			
European Investment Bank	Aaa	119	-
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	200	934
		1,551	**1,597**

[1] Very few Local Authorities have their own credit rating but they're generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2023 was 'Aa3').

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund doesn't expect any losses from non-performance by any of its counterparties in relation to deposits.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund isn't bound by any obligation to replenish its investments and hence isn't exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund won't be able to meet its financial obligations as they fall due. The Fund therefore ensures that there's adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund’s cash flows.

All of the Fund’s investments could be converted to cash within three months in a normal trading environment.

11 Actuarial statement

The Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

12 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £95m (2022 £116m). This figure is used for statutory accounting purposes by Scottish Homes Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2022	31 March 2023
	% p.a.	% p.a.
Inflation/pensions increase rate	3.20%	2.95%
Discount rate	2.70%	4.75%

Longevity assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 2.0% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2022		31 March 2023	
	Male	Female	Male	Female
Current pensioners	20.3 years	23.1 years	20.4 years	23.1 years
Future pensioners (assumed to be currently 45)	21.6 years	25.0 years	20.4 years	25.8 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

13 Debtors

	31 March 2022	31 March 2023
	£000	£000
Sundry debtors	1	7
	1	**7**

14 Creditors

	31 March 2022	31 March 2023
	£000	£000
Benefits payable	15	25
Miscellaneous creditors and accrued expenses	0	2
	15	**27**

15 Related party transactions

The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there's a strong relationship between the Council and the Pension Funds.

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. Lothian Pension Fund (inclusive of Scottish Homes Pension Fund) has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2022	31 March 2023
	£000	£000
Year end balance of holding account	183	265
	183	**265**

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2023, the fund had an average investment balance of £1.4m (2022 £1.7m). Interest earned was £31k (2022 £2k).

LOTHIAN PENSION FUND

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

15 Related party transactions cont

Year end balance on treasury management account	31 March 2022 £000	31 March 2023 £000
Held for investment purposes	-	-
Held for other purposes	1,551	1,597
	1,551	**1,597**

Fund guarantor

The Fund guarantor (by definition) is a related party to the scheme. The Scottish Government's contributions to the Fund can be found in note 3 (page 126) of the notes to the Financial Statements.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund and Scottish Homes Pension Fund for the purposes of administering the Funds under an intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. Lothian Pension Fund is invoiced for these services and Scottish Homes Pension Fund is then allocated a percentage recharge on a defined basis. During the year to 31 March 2023, the Fund was recharged £78k (2022 £76k) for the services of LPFE Limited staff.

Governance

As at 31 March 2023, all members of the Pensions Committee and the Pension Board were members of the Lothian Pension Fund, with the exception of Richard Lamont and Tony Beecher. One member of both the Pensions Committee and the Pension Board is in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pensions Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

15 Related party transactions cont

During the period from 1 April 2022 to the date of issuing of these accounts, Lothian Pension Fund was charged by City Of Edinburgh Councils via its service level agreement for time spent by its Executive Management team on pension fund issues, Scottish Homes Pension Fund is then recharged for these services on a defined basis. All other staff that held key positions in the financial management of Lothian Pension Fund and Scottish Homes Pension Fund were employed by LPFE Limited. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2022	31 March 2023
	£000	£000
Short-term employee benefits	909	1,281
Post-employment benefits - employer pension contributions	111	119

Key management personnel employed by LPFE had accrued pensions totalling £148,034 (1 April 2022: £134,724) and lump sums totalling £147,429 (1 April 2022: £131,304) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 174.

Staff are either employed by City of Edinburgh Council or LPFE Limited, and their costs reimbursed by the Pension Funds. The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

16 Contingent assets/liabilities

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019 a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 4 August 2020, the Scottish Public Pensions Agency (SPPA) issued a statutory consultation on the proposed remedy, with this closing in October 2020. As anticipated, it's proposed that a comparison will be made between the benefits payable under the current rules with the entitlements which would have been paid if the Scheme hadn't changed in 2015, and with any higher sum being paid to the member. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Many members benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced. As the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementation of the remedy is expected to be extremely challenging from both administration and communications perspectives. SPPA hasn't yet published its formal response to its consultation.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

It's anticipated that rectification regulations should come into force from the start of October 2023.

The Fund's IAS26 reporting from its actuary, as disclosed in Note 12, takes into account the appeal decision and the proposed remedy.

Guaranteed Minimum Pension (GMP) Equalisation - Lloyds ruling on historic transfers

On 20 November 2022 the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers with 17 May 1990 - 5 April 1997 GMPs to be equalised, even if they were taken as long ago as 1990. Schemes will be expected to pay a top-up to receiving scheme with interest at Bank base rate +1%. There are limited exceptions that don't require a top-up, but it isn't obvious within the judgement that there's to be any blanket exception on the application of this ruling to public sector schemes.

It isn't yet clear what impact this will have for the LGPS and the Fund is awaiting further guidance before taking any further action.

17 Contractual commitments

The Fund had no contractual commitments at the year end.

18 Impairment losses

No impairment losses have been identified during the year.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of funding policy

The Administering Authority's Funding Strategy Statement (FSS), dated September 2021, states that a bespoke funding strategy has been adopted for the Fund.

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels. The deficit recovery period is 8 years.

The Fund's assets are invested wholly in index-linked gilts.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £166.1 million, were sufficient to meet 117.7% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £24.9 million.

The Guarantor's contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as set out in its FSS.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2020 valuation were as follows:

Financial assumptions	31 March 2020
Discount Rate	Bank of England nominal yield curve
Benefit increase assumption (CPI)	Bank of England implied inflation (RPI) curve less 0.9% p.a.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 2.0% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.8 years	23.3 years
Future Pensioners *	21.1 years	26.0 years

**Currently aged 45*

Copies of the 2020 valuation report and Funding Strategy Statement are available on the LPF website.

Experience over the period since 31 March 2020

Since the last formal valuation, real bond yields have risen, reducing the value of the liabilities and the assets held by the Fund. As a result, the funding level of the Fund as at 31 March 2023 is likely to be fairly similar to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
11 May 2023

ACCOUNTING POLICIES AND GENERAL NOTES

1. Basis of preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Financial Statements summarises the transactions of the Funds for the 2022/23 financial year and report on the net assets available to pay pension benefits as at 31 March 2023. The Financial Statements don't take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present values of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are disclosed in the Notes to the Financial Statements.

The Financial Statements are prepared on the going concern basis, which provides that the Funds will continue in operational existence for the foreseeable future. The basis is on the grounds that there's sufficient funding available to the Funds to support the anticipated continuation of the provision of services.

2. Summary of significant accounting policies

General

a) Basis of consolidation – Group accounts

Commencing with the year ended 31 March 2016, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 – Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Further details of the consolidation are provided in the Notes to the Financial Statements of Lothian Pension Fund.

LPFE Limited (LPFE) and LPFI Limited (LPFI) are wholly owned by the City of Edinburgh Council in its capacity as administering authority for the Local Government Pension Scheme in the Lothian area.

The purpose of LPFE is to provide staff services in respect of management of the Fund. LPFI's purpose is to provide FCA regulated services to LPF and other Local Government Pension Scheme funds. It's considered appropriate to consolidate the Financial Statements of the two companies with those of Lothian Pension Fund.

ACCOUNTING POLICIES AND GENERAL NOTES

Fund Account – revenue recognition

b) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the rate certified by the Scheme Actuary in the payroll period to which they relate.

Similarly, employer deficit funding contributions are accounted for on the due date on which they're payable as certified by the Scheme Actuary.

Employers' pensions strain contributions are accounted for in the period in which the liability arises. Any amount due but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

c) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

d) Investment income

i) Interest income
Interest income is recognised in the Fund Accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

ACCOUNTING POLICIES AND GENERAL NOTES

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Income from unquoted private equity and infrastructure investments

Income from the above sources is recognised when it's notified by the manager. Distributions are split into capital and income elements with the latter being included under investment income in the Fund Account.

v) Property related income

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by Lothian Pension Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Rental income is reported gross with the operational costs of the properties included in investment management expenses.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

vi) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

e) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

ACCOUNTING POLICIES AND GENERAL NOTES

f) Taxation

i) Pension Funds
The Local Government Pension Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

ii) Controlled entities – LPFE and LPFI
The Companies are mutual traders and are therefore not liable to corporation tax on any surpluses generated from services provided in respect of the Fund. The tax charges for the period are based on any profit for the period from non-mutual trade, adjusted for any non-assessable or disallowed items. They're calculated using tax rates that have been enacted or are substantively enacted by the period end date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it's probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account, or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

ACCOUNTING POLICIES AND GENERAL NOTES

g) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Lothian Pension Fund is responsible for administering the two Funds. The costs include charges from LPFE and LPFI for services rendered. LPF receives an allocation of the overheads of the Council based on the amount of central services consumed. In turn, these costs are allocated to the two Funds.

Costs directly attributable to a specific fund are charged to the relevant fund. Investment management costs that are common to all funds are allocated in proportion to the value of each fund as at the end of the year. Other administration costs are allocated in proportion to the number of members in each of the funds at the end of the year.

h) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

For some investment managers, an element of their fee is performance related. The amount of any performance related fees paid is disclosed in the note to the accounts on investment management expenses provided for each Fund.

The cost of administering the Local Government Pension Scheme in the UK has come under increasing scrutiny in recent years. As a result, it has been decided to recognise investment management costs that are deducted from the value of an investment and recognised this as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Investment transaction costs that are added to an investment purchase price or deducted from the proceeds of a sale are also recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments.

In June 2016, CIPFA revised and updated its guidance "Accounting for Local Government Pension Scheme Management Costs". Whilst the underlying principle of transparency of investment costs remains unchanged, there's been a degree of relaxation to full cost disclosure. Specifically, for complex 'fund of funds' structures, the new guidance states that "Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the (Pension) Fund Account . . . If pension funds wish to provide information about the total cost of 'fund of fund' investments, this should be included as part of the Investments section in the Annual Report."

The impact of this is that investment management costs deducted from any underlying fund in a 'fund of funds' investment would not be included in the costs disclosed in the Fund Account. As this would significantly under-report investment management costs, it has been decided not to adopt this element of the CIPFA guidance. However, this type of cost is separately identified as "external management fees – deducted from capital (indirect)" in the notes on investment management expenses.

ACCOUNTING POLICIES AND GENERAL NOTES

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are not treated as an expense. Such costs are accounted for as part of the acquisition costs or sale proceeds.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the in-house investment management team are charged to the fund. The basis of allocation is as described in section g.

Securities lending revenue is reported gross and their fees are disclosed in investment management expenses.

i) Operating lease

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. In accordance with IFRS 16, lease incentives are recognised as a reduction in the lease expense over the term of the lease on a straight-line basis.

Net Assets Statement

j) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the Fund’s Investment Valuation Policy. The Policy is designed to provide a framework for LPF’s investment valuation process as determined by the Investment Valuation Group, which has been given delegated authority from the Chief Executive Officer of the Fund.

The Fund’s Investment Valuation Group reviews the valuation process for all investments on an annual basis, including the application of appropriate valuation standards, based on the input of LPF’s Investment Management team. Group members consist of the Fund’s Portfolio Managers, Finance Managers, and Risk Managers.

For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The basis of the valuation of each class of investment assets is set out on the next page. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

LOTHIAN
PENSION FUND

OUTSTANDING SERVICE

'I was nervous about deferring my pension, but everyone I spoke to was very patient and understanding and talked me through the process. Thank you for your support."

ACCOUNTING POLICIES AND GENERAL NOTES

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Market quoted investments -	Level 1	Closing bid value on published exchanges	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Future derivative contracts	Level 1	Determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.	Not required	Not required
Forward foreign exchange derivatives	Level 1	Based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.	Not required	Not required
Government bonds – fixed interest /	Level 2	Recorded at net market value based on their current yields.	Evaluated price feeds	Not required
Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by CBRE Ltd in accordance with RICS Red Book Global Valuation Standards (introduced with effect from 31 January 2022).	Existing lease terms and rentals. Independent market research.	Not required
Unquoted Pooled investments – Private Equity, Infrastructure, Timber, Private Secured Loans & Property	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Guidelines and the IPEV Board's Special Valuation Guidance (March 2020).	EBITDA multiple revenue multiple. Discount for lack of marketability. Control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

ACCOUNTING POLICIES AND GENERAL NOTES

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and in consultation with independent investment advisers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2023.

Lothian Pension Fund	Assessed Valuation range (+ or -)	Value at 31 March 2023	Value on increase	Value on decrease
Unquoted		**£m**	**£m**	**£m**
Private Equity	26.0%	108	137	80
Infrastructure	12.0%	1,324	1,483	1,165
Timber	18.0%	111	131	91
Private Secured Loans	10.5%	420	464	376
Property	13.0%	488	551	424
		2,451	**2,766**	**2,136**

Scottish Homes Pension Fund has no assets valued at Level 3.

k) Foreign currency transactions and balances
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

l) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

m) Financial liabilities
The Fund recognise financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised.

n) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits of each of the Fund is assessed on an annual

ACCOUNTING POLICIES AND GENERAL NOTES

basis by the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statements.

o) Additional voluntary contributions

The Lothian Pension Fund provide an additional voluntary contributions (AVC) scheme for their members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life and Prudential as their AVC providers. AVCs are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs aren't included in pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed by way of note.

p) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it isn't possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities aren't recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

q) Employee benefits

The employees of LPFE are eligible to participate in Lothian Pension Fund.

In the Consolidated Financial Statements, the current service cost for the period is charged to the Fund Account. The assets of Lothian Pension Fund are held separately from those of the Company. The Company has fully adopted the accounting principles as required by IAS19 – Employee Benefits.

The liability recognised in the Net Asset Statement in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs.

ACCOUNTING POLICIES AND GENERAL NOTES

The defined benefit obligation is calculated annually, by the Scheme Actuary, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Fund Account in the period in which they arise.

Past-service costs are recognised immediately in the Fund Account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified time period (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

3 . Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended Standards within the 2022/23 Code:

The Code requires implementation from 1 April 2023 and there is therefore no impact on the 2022/23 financial statements.

- IAS 8 Definition of Accounting Estimates
- IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies
- IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- IFRS 13 Reference to the Conceptual Framework

The amendments are generally minor or principally providing clarification. Overall, these new or amended standards aren't expected to have a significant impact on the Financial Statements.

ACCOUNTING POLICIES AND GENERAL NOTES

4 . Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It's important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments.

They're inherently based on forward-looking estimates and judgements involving many factors. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation (IPEV) Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

For the Lothian Pension Fund, the value of unquoted private equity, infrastructure, timber and secured loan investments at 31 March 2023 was £1,712m (2022 £1,344m).

Actuarial present value of promised retirement benefits

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

5 . Assumptions made about the future and other major sources of estimation uncertainty

The Financial Statements contain estimated figures that are based on assumptions made by the Council; private equity and infrastructure managers; other providers of valuation information; and the Scheme Actuary about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2023 for which there's a significant risk of material adjustment in the forthcoming financial year are as follows:

ACCOUNTING POLICIES AND GENERAL NOTES

a) Actuarial present value of promised retirement benefits

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on the fund's assets. The Fund actuary advises on the assumptions to be applied and prepares the estimates.

Effect if actual results differ from assumptions – Lothian Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2023	Approx Increase in liabilities %	Approx monetary amount £m
0.1% p.a. decrease in the Discount Rate	2%	131
1 year increase in member life expectancy	4%	279
0.1% p.a. increase in Salary Increase Rate	0%	13
0.1% p.a. increase in Pensions Increase Rate (CPI)	2%	120

Effect if actual results differ from assumptions – Scottish Homes Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2023	Approx Increase in liabilities %	Approx monetary amount £m
0.1% p.a. decrease in the Discount Rate	1%	1
1 year increase in member life expectancy	4%	4
0.1% p.a. increase in Pensions Increase Rate (CPI)	1%	1

ACCOUNTING POLICIES AND GENERAL NOTES

b) Valuation of unquoted private equity and infrastructure investments

Uncertainties

These investments aren’t publicly listed and therefore there’s a degree of estimation involved in their valuation, see 2j above for more details on the valuation methodology.

Effect if actual results differ from assumptions

There is a risk that these investments may be under or overstated in the Accounts at any point in time. The actual financial return of this type of investment is only known with certainty when they reach the end of their lifecycles and the final distributions are made to investors. A sensitivity analysis can be found in note 2j above.

c) Quantifying the cost of investment fees deducted from capital

Uncertainties

Section 2 h) describes the Accounting Policy for investment management expenses in relation to expenses deducted from the capital value of investments. Quantification of these costs involves asking the relevant managers for information and only some of this information can be independently verified. In cases where the charges relate to an investment as a whole, an estimate needs to be made of the costs applicable to the holding owned by the relevant fund.

Effect if actual results differ from assumptions

There’s a risk that the cost of investment fees deducted from capital may be under or overstated. However, as the costs are included in the Fund Account by adjusting the change in market value of investments, any inaccuracy in the cost estimate won't change the reported net change in the Fund for the year.

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Administering Authority

The Administering Authority's responsibilities are to:

- Make arrangements for the proper administration of the financial affairs of the Fund in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. The Head of Finance serves as the Section 95 Officer for all the Council's accounting arrangements, including those of Lothian Pension Fund and Scottish Homes Pension Fund. For the Fund, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003)
- Approve the Unaudited Annual Accounts for signature.

I confirm that these Unaudited Annual Accounts were approved for signature by the Lothian Pension Fund Committee at its meeting on 21 June 2023.

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
21 June 2023

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Chief Finance Officer, Lothian Pension Fund

The Chief Finance Officer, Lothian Pension Fund, is responsible for the preparation of the Fund's Financial Statements which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code of Practice), is required to present a true and fair view of the financial position of the Fund at the accounting date and their income and expenditure for the year ended 31 March 2023.
In preparing this statement of accounts, the Chief Finance Officer, Lothian Pension Fund, has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation and the Local Authority Accounting Code (in so far as it is compatible with legislation)

The Chief Finance Officer, Lothian Pension Fund, has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2023 and the transactions of the Pension Fund for year ended 31 March 2023.

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
21 June 2023

ANNUAL GOVERNANCE STATEMENT

Roles and responsibilities

The City of Edinburgh Council (the Council) has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the Lothian area of Scotland (Administering Authority). This responsibility is for two separate Funds: the Lothian Pension Fund and Scottish Homes Pension Fund (the Fund). Responsibility for the oversight and management of those funds is delegated to a governance structure in order to satisfy the requirements of relevant pensions and investment legislation and to ensure best practice.

Oversight bodies: The main functions of the Administering Authority are administration of scheme benefits and the investment of the assets of the Fund. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972. The Fund's governance structure must also adhere to the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015. The oversight of the Funds is therefore carried out via:

- The Pensions Committee and the Pensions Audit Sub-Committee
- The Pension Board
- The Joint Investment Strategy Panel
- The LPF Group.

Corporate group: The Lothian Pension Fund group comprises the investment and pensions team employed by LPFE Limited (LPFE) and LPFI Limited (LPFI), the Group's regulated investment vehicle (together the LPF Group). Both companies are wholly owned by the Administering Authority.

Further details on the above arrangements can be found in the Governance section of the Management Commentary towards the front of this document.

Scope of responsibility

As the Administering Authority of the Fund, the Council is responsible for ensuring that its business in administering the Fund, is conducted in accordance with the law and appropriate standards, and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which for the Fund is exercised in conjunction with its other separate statutory duties.

In discharging these overall responsibilities, elected members, senior officers and external representatives are responsible for implementing effective arrangements for governing the affairs of the LPF Group, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

ANNUAL GOVERNANCE STATEMENT

The LPF Group has adopted a Local Code of Corporate Governance that's consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'.

This statement explains how the LPF Group has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The governance framework

The LPF Group operates within the wider governance framework of the Council but within specific ringfenced governance structures focussed on the Fund themselves. The governance framework comprises the systems, controls, processes, cultures and values by which the LPF Group directs and controls the Fund. It also describes the way the LPF Group engages with and accounts to its stakeholders in relation to the management of the administration of the Fund. It enables the LPF Group to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The LPF Group is also directly regulated by The Pensions Regulator, the Financial Conduct Authority (regarding its regulated investment activity), the Scottish Information Commissioner and is subject to other corporate and public sector rules and regulations.

The LPF Group has a few remaining services on which it relies from the Administering Authority. These include the Council's Democracy, Governance and Resilience, Procurement, Information Governance and Internal Audit functions, all of which form part of the LPF Group's overall assurance stack. However, the Fund also seeks specialist external input in order to provide effective assurance around its financial services, investments and pensions specific business.

The LPF Group also currently places reliance upon certain of the internal financial controls within the Administering Authority's financial systems and the monitoring in place to ensure the effectiveness of these controls.

Following the establishment of the wholly-owned subsidiary companies, LPFE and LPFI, the Administering Authority continues to have appropriate assurance processes and procedures around the administration of those companies and the wider LPF Group administering the Fund.

ANNUAL GOVERNANCE STATEMENT

Review of affectiveness

The Local Code of Governance details the Administering Authority’s arrangements for monitoring each element of the framework and providing evidence of compliance.

The Chief Internal Auditor provides an annual assurance statement on the effectiveness of the system of internal control. The internal audit represents only one aspect of the LPF Group's oversight and assurance arrangements, which also includes work undertaken by LPF’s Risk & Compliance team as well as other external assurance providers to support and complement existing internal activities. These assurance activities cover oversight of the group's systems and controls, including FCA regulated compliance and other regulatory frameworks. In addition, the Chief Finance Officer of the LPF Group provides a statement of the effectiveness of the internal financial control system for the year ended 31 March 2023 for the Fund.

These forms of monitoring and oversight continue to provide the Pensions Committee, Pension Board and boards of LPFE and LPFI with good levels of assurance and broad coverage of the group's activities. Where these activities have identified any weaknesses and enhancements, appropriate action plans have been agreed to make improvements where required.

ANNUAL GOVERNANCE STATEMENT

Certification

It's our opinion, in light of the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate within the LPF Group in its administration of the Fund. We consider the governance and internal control environment operating during the financial year from 1 April 2022 to 31 March 2023 to provide reasonable and objective assurance that any significant risks impacting on the LPF Group and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified and suitably proportionate actions have and will be taken to avoid or mitigate the impact of any such risks.

The LPF Group has identified certain key areas for improvement, summarised as follows:

- **Human resources:** to continue to implement the human resources strategy and Governance specific to LPF Group's requirements, prioritising an intranet to reinforce communications on policies, procedures and group "culture"
- **Pension Board:** to ensure that vacancies in the Pension Board are filled timeously and by suitable candidates and that this body of external stakeholder representatives receives the training and support it requires on an ongoing basis
- **Business continuity:** to continue to assess and refresh the business continuity plan on an ongoing basis
- **Financial services regulatory compliance:** to continue to instruct external compliance audits on the operations and governance of LPFI in order to ensure best practice compliance and assurance around its existing operations (and in preparation for its extended collaborative business model) and take action to address the recommendations from those audits on an ongoing basis
- **Third line:** to review the structure and effectiveness of its internal audit assurance
- **Data security:** we achieved Cyber Essentials and Cyber Essentials+ accreditation in April 2023. Cyber Essentials is a UK Government backed scheme, overseen by the National Cyber Security Centre, designed to show that an organisation has a good level of protection in cyber security
- **Wider governance:** to continue to maintain and reinforce separate governance and controls specific to the needs of the LPF Group, the pensions funds it administers and its distinct duties to employer and member stakeholders, consistently throughout the LPF Group's governance structures. To ensure that oversight from the Administering Authority is supported in a manner consistent with those duties.

The LPF Group will continue to ensure that these are treated as a priority and that progress towards implementation will be reviewed through the governance structures and processes established for the LPF Group and summarised herein.

ANNUAL GOVERNANCE STATEMENT

David Vallery
Chief Executive Officer
Lothian Pension Fund
21 June 2023

GOVERNANCE COMPLIANCE STATEMENT

The Regulations that govern the management of Local Government Pension Scheme in Scotland require that a Governance Compliance Statement is published. This statement sets out the extent to which governance arrangements comply with best practice.

The statement below describes arrangements at 31 March 2023 and over the financial year.

Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	✔	The City of Edinburgh Council acts as administering authority and delegates all pension scheme matters* to a committee of seven members (Pensions Committee) made up as follows: • Five City of Edinburgh Council elected members • Two external members, one drawn from the membership of the Fund and one drawn from the employers that participate in the Fund. **with the exception of consideration of a proposed merger with LPF and Falkirk Council Pension Fund.*
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	✔	The Pensions Committee includes two external places for pension fund stakeholders i.e. one each from the employer and member representatives. Fund members and employers are also represented within the Fund's Pension Board. Membership includes five employer representatives and five member representatives, although this is currently under review. All members of the Pension Board are invited to attend the meeting of the Pensions Committee and receive the relevant papers prior to those meetings. Two members of the Pension Board are invited to attend the Pensions Audit Sub-Committee.

LOTHIAN PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Structure	That where a secondary committee or board has been established, the structure ensures effective communication across both levels.	✔	The Pensions Audit Sub-Committee, consisting of three members of the Pensions Committee, report to the Pensions Committee on their findings and recommendations. Two members of the Pension Board attend the Pensions Audit Sub-Committee in a non-voting capacity. The Pension Board attends the Pensions Committee meetings and takes part in training events. Implementation of investment strategy is currently delegated from the Pensions Committee to the Service Director: Finance and Procurement, who takes advice from the Joint Investment Strategy Panel. The Panel meets quarterly and reports to the Pensions Committee annually. The advisers on the Joint Investment Strategy Panel consists of the Chief Investment Officer and one other portfolio manager of LPFI plus two experienced independent external industry advisers. The Pensions Committee receives annual updates from LPFE and LPFI.
Representation	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include employing authorities (including non-scheme employers, e.g. admitted bodies) and scheme members (including deferred and pensioner scheme members).	✔	The Pension Board consists of a mix of representatives: • Five employer representatives from non-administering authority employers • Five member representatives appointed by the Trade Unions in accordance with the approach required under Scottish statute.
	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✔	Our current Independent Professional Observer (IPO) was appointed in August 2018. The appointment was extended in August 2021 for a further two years. The IPO helps Committee scrutinise advice.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Representation	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✓	As mentioned previously, external investment advisers sit on the Joint Investment Strategy Panel. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the Funds. A non-executive director was appointed to the board of LPFI on February 2017 and LPFE on March 2018, being reappointed in January 2021, with a further two-year reappointment being approved in March 2023 to both LPFE and LPFI Boards. A further non-executive director was appointed to the board of LPFI on January 2021 and LPFE on February 2021 with a two-year reappointment being approved in March 2023 to both LPFE and LPFI Boards. An external compliance consultant supports the LPF Group on its ongoing compliance with the Financial Conduct Authority rules, regulations and guidance.
	That where lay members sit on a main or secondary committee, they're treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	✓	The Pension Board attends the Pensions Committee meetings to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation. The Pension Board takes part in all Committee training events. The Pensions Committee takes account of the views of the Pension Board when making decisions.
Selection and Role of Lay Members	That Committee or Board members are made fully aware of the status, role and function that they're required to perform on either a main or secondary Committee.	✓	A comprehensive training programme including induction is in place. Members of the Pensions Committee and Pension Board are expected to attend no less than three days of training (21 hours) per year. The elected members are required to read, sign and abide by the Councillors' Code of Conduct. The LPF Code of Conduct, approved in December 2019 (which has been specifically updated and tailored for the Pension Committee and Pension Board) is required to be read and signed by elected and non-elected members prior to their appointment.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Selection and Role of Lay Members	That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	✔	The declaration of members' interests is a standard item on the agenda for meetings of the Pensions Committee, Pensions Audit Sub-Committee and Pension Board. A Code of Conduct also applies to all members of the Pensions Committee and the Pension Board. The declaration of board members' interest is a standard item on the agenda for the meetings for the LPFE and LPFI board meetings.
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS Committees.	✔	Five of the seven places of the Pensions Committee are held by elected members of the City of Edinburgh Council, which is required to retain a 2/3 majority in line with the Local Government (Scotland) Act 1973. The LPF Group's Nomination and Appointments Policy clearly documents how employer and member representatives will be elected to the Pensions Committee and Pension Board. LPFI and LPFE board members conduct meetings and other matters in accordance with their respective articles of association and shareholders' agreements.
Training/Facility Time/Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	✔	A Training and Attendance Policy is in place covering training requirements and reimbursement of expenses. The policy is available on the LPF Group's website www.lpf.org.uk. Board members and staff working for LPFI and LPFE also attend separate training for the purposes of their knowledge, understanding and (where appropriate) compliance with Financial Conduct Authority regulations.
	b) That where such a policy exists, it applies equally to all members of Committees, Sub-Committees, advisory panels or any other form of secondary forum.	✔	The Training and Attendance Policy applies to both the Pensions Committee and the Pension Board. Advisers have their own professional development obligations.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Training/Facility Time/Expenses	c) That the administering authority considers the adoption of annual training plans for Committee and Board members and maintains a log of all such training.	✔	Each Pensions Committee and Pension Board member is expected to attend no less than three days training per year (21 hours) per year. Attendance at meetings and training is monitored and reported.
Meetings frequency	a) That an administering authority's main Committee or Committees meet at least quarterly.	✔	The Pensions Committee meets at least four times a year.
	b) That an administering authority's secondary Committee or panel meet at least twice a year and is synchronised with the dates when the main Committees sits.	✔	The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times a year with further meetings held if necessary. The Joint Investment Strategy Panel meets quarterly or more frequently as required. The Pension Board attends all the Pensions Committee meetings and separately meets in advance of such meetings. Further meetings are held if necessary. From 2023 the LPFE and LPFI boards meet at least four times a year (in February, June, September and December).
	c) That an administering authority who doesn't include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
Access	That subject to any rules in the council's constitution, all members of main and secondary Committees or Boards have equal access to committee papers, documents and advice that falls to be considered at meetings of the main Committee.	✔	Pensions Committee papers and minutes are publicly available. From June 2023 the papers and minutes will be available on the Council's website via a link to the LPF website. All Pensions Committee and Pension Board members have equal access. Members of the Pensions Committee and Pension Board have equal access to the Independent Professional Observer who provides quarterly updates and attends all Pension Committee, Audit Sub Committee and Pension Board meetings.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	✔	The Pensions Committee deals with all matters relating to both the administration and investment of the Fund and the LPF Group. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the Fund.
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	✔	Governance documents, policies and details of Pension Board membership are on the LPF Group's website. The LPF Group also communicates regularly with employers and scheme members.

David Vallery

Chief Executive Officer

Lothian Pension Fund

21 June 2023

REMUNERATION REPORT

Remuneration policy for employees

Our officers and employees of Lothian Pension Fund are employed by LPFE, an arms-length organisation owned by the City of Edinburgh Council, the administering authority for Lothian Pension Fund. In recent years LPFE has been incorporated as a standalone entity to allow us to compete with private sector investment management firms for recruitment and retention of skilled and experienced investment managers and analysts.

Operating this model allows us to achieve significantly lower costs, and therefore improved net returns or lower investment risk than would be possible by appointing private sector asset managers to invest the Fund's assets. The LPFE Board acts as a Remuneration Committee for officers and employees determining pay arrangements based on comparison to well-researched market benchmarks and performance against pre-agreed performance targets, and always linked to the principle of delivering value-for-money for the members of the Fund and their sponsoring employers.

Each year LPF participates in a range of benchmarking exercises to measure operating costs and net investment returns against peers and indices relevant to us. Pay arrangements in LPFE are underpinned by comprehensive market benchmarking with an external provider and reflect the market for investment expertise where this is a requirement for the role. By using benchmarks on costs and net investment returns, we're able to provide assurance to our oversight bodies that such pay arrangements represent value-for-money for employee members and their sponsoring employers who bear the costs of operating the pension fund and securing retirement benefits.

We have three variable pay schemes at LPF; two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle colleagues to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 January to 31 December each year. The award then vests over three years.

The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met.

The accounting treatment for variable pay as outlined in "International Accounting Standard (IAS) 19, Employee Benefits" states that employee service before the vesting date gives rise to an obligation to make payment, because, at the end of each successive reporting period, the amount of future service that an employee will have to deliver before becoming entitled to the benefit is reduced.

In accordance with IAS 19, therefore, a liability has been raised as at 31 March 2023 for the two months of service which the employees have delivered with regards to the remaining vested payments in the scheme.

REMUNERATION REPORT

This obligation of LPF to make payments as a result of colleague service delivered up to 31 March 2023 is reflected in the figures presented below.

NUMBER OF EMPLOYEES BY PAY BAND

The numbers of employees whose remuneration during the year exceeded £50,000 were as follows:

Remuneration Bands	2021/22	2022/23	Remuneration Bands	2021/22	2022/23
£50,000 - £54,999	1	3	£140,000 - £144,999	2	-
£55,000 - £59,999	-	4	£145,000 - £149,999	1	-
£60,000 - £64,999	1	1	£150,000 - £154,999	-	2
£65,000 - £69,999	2	4	£155,000 - £159,999	-	2
£70,000 - £74,999	-	-	£160,000 - £164,999	3	1
£75,000 - £79,999	2	1	£165,000 - £169,999	-	3
£80,000 - £84,999	1	2	£170,000 - £174,999	-	-
£85,000 - £89,999	-	-	£175,000 - £179,000	1	-
£90,000 - £94,999	-	1	£180,000 - £184,999	-	-
£95,000 - £99,999	-	-	£185,000 - £189,999	-	-
£100,000 - £104,999	1	1	£190,000 - £194,999	-	-
£105,000 - £109,999	-	1	£195,000 - £199,999	-	-
£110,000 - £114,999	2	-	£200,000 - £204,999	-	-
£115,000 - £119,999	1	1	£205,000 - £209,999	-	-
£120,000 - £124,999	-	-	£210,000 - £214,999	-	1
£125,000 - £129,999	-	-	£215,000 - £219,999	-	-
£130,000 - £134,999	1	-	£220,000 - £224,999	-	-
£135,000 - £139,999	2	-	£225,000 - £229,000	-	1
			Total No. of Employees	**21**	**29**

REMUNERATION REPORT

EMPLOYEES REMUNERATION

The remuneration paid to LPF's senior employees is as follows:

	Total Remuneration 2021/22	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2022/23
Name and Post Title	**£000**	**£000**	**£000**	**£000**
David Vallery, Chief Executive Officer (from June 2021)	114	181	47	228
Bruce Miller, Chief Investment Officer	176	154	60	214
Struan Fairbairn, Chief Risk Officer (to September 2022)	138	57	-	57
Kerry Thirkell, Chief Risk Officer (from August 2022)	-	91	13	104
John Burns, Chief Finance Officer (resigned May 2023)	132	117	45	162
Karlynn Sokoluk, Chief Operating Officer (from November 2022)*	-	106	9	115
Helen Honeyman, Chief People Officer	112	114	44	158
Total	**719**	**820**	**218**	**1,038**

**Karlynn Sokoluk was employed as Head of Services from April 2022 to November 2022*

The senior colleagues detailed above have responsibility for management of the LPF group to the extent that they have power to direct or control the major activities of the group (including activities involving the expenditure of money), during the year to which the Remuneration Report relates, whether solely or collectively with other persons.

REMUNERATION REPORT

The variable remuneration shown above includes the Company variable remuneration for 2022/23 along with the Senior Management variable remuneration for 2022/23 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2022/23	Senior Management Variable Remuneration			Total Variable Remuneration 2022/23
		2021 Payment 3	2022 Payment 2	2023 Payment 1	
Name and Post Title	£000	£000	£000	£000	£000
David Vallery, Chief Executive Officer	15	-	11	21	47
Bruce Miller, Chief Investment Officer	13	14	16	17	60
Kerry Thirkell, Chief Risk Officer (from August 2022)	5	-	-	8	13
John Burns, Chief Finance Officer (resigned May 2023)	8	11	12	14	45
Karlynn Sokoluk, Chief Operating Officer (from November 2022)	8	-	-	1	9
Helen Honeyman, Chief People Officer	10	9	11	14	44
Total	**59**	**34**	**50**	**75**	**218**

The remuneration paid to our employees whose remuneration during the year exceeded £150,000 is as follows:

	Total Remuneration 2021/22	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2022/23
Name and Post Title	£000	£000	£000	£000
Andrew Imrie, Portfolio Manager	164	116	51	167
Stewart Piotrowicz, Portfolio Manager	162	114	52	166
Ian Wagstaff, Portfolio Manager	164	116	51	167
Albert Chen, Portfolio Manager	143	106	47	153
Ross Crawford, Portfolio Manager	145	104	47	151
Nicola Barrett, Portfolio Manager	150	107	51	158
Total	**928**	**663**	**299**	**962**

REMUNERATION REPORT

The variable remuneration shown on the previous page includes the Company variable remuneration for 2022/23 along with the Portfolio Manager variable remuneration for 2022/23 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2022/23	Portfolio Manager Variable Remuneration			Total Variable Remuneration 2022/23
		2021 Payment 3	2022 Payment 2	2023 Payment 1	
Name and Post Title	£000	£000	£000	£000	£000
Andrew Imrie, Portfolio Manager	9	13	15	14	51
Stewart Piotrowicz, Portfolio Manager	9	13	15	15	52
Ian Wagstaff, Portfolio Manager	9	13	15	14	51
Albert Chen, Portfolio Manager	10	11	13	13	47
Ross Crawford, Portfolio Manager	10	11	13	13	47
Nicola Barrett, Portfolio Manager	11	12	14	14	51
Total	**58**	**73**	**85**	**83**	**299**

Senior officers of the City of Edinburgh Council are also fully remunerated via the Council and no additional remuneration is paid by LPF. This remuneration is disclosed in the Financial Statements of the City of Edinburgh Council.

The total amount of variable remuneration payable over the next two years if all of the colleagues involved in the arrangements at 31 January 2023 remain in the company's employment is as follows:

	Payable January 2024		Payable January 2025
	2022 Payment 3	2023 Payment 2	2023 Payment 3
	£000	£000	£000
Senior Employee Variable Remuneration	46	71	71
Portfolio Manager Variable Remuneration	104	112	112
Employer National Insurance Contribution	21	25	25
Total	**171**	**208**	**208**

The amounts payable for senior employee variable remuneration over the next two years exclude amounts previously calculated for Struan Fairbairn in respect of performance in 2020/21 and 2021/22 following his resignation from LPFE in March 2022, and subsequent foregoing of vested variable pay.

REMUNERATION REPORT

Colleague pension entitlement

Pension benefits for colleagues are provided through the Local Government Pension Scheme.

The Local Government Pension Scheme became a career average pay scheme for colleagues on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The Scheme's normal retirement age for colleagues is linked to the State Pension Age (with a minimum of age 65).

From 1 April 2009, a five-tier contribution system was introduced with contributions from Scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009, contributions rates were set at 6% for all non-manual colleagues.

The tiers and members' contribution rates for 2022/23 were as follows:

Pensionable Pay (2022/23)	Rate (%)
On earnings up to and including £23,000 (2021/2022 £22,300)	5.5%
On earnings above £23,001 and up to £28,100 (2021/2022 £22,300 to £27,300)	7.25%
On earnings above £28,101 and up to £38,600 (2021/2022 £27,300 to £37,400)	8.5%
On earnings above £38,601 and up to £51,400 (2021/2022 £37,400 to £49,900)	9.5%
On earnings of £51,401 and above (2021/2022 £49,900)	12.0%

If a person works part-time, their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

REMUNERATION REPORT

The pension entitlement of the LPF Group's senior employees is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2021/22	2022/23		As at 31 March 2023	Increase from 31 March 2022
Name and Post Title	£000	£000		£000	£000
David Vallery, Chief Executive Officer (from June 2021)	12	14	Pension	-	-
			Lump Sum	-	-
Bruce Miller, Chief Investment Officer	24	4	Pension	38	1
			Lump Sum	33	-
Struan Fairbairn, Chief Risk Officer (to September 2022)	19	10	Pension	18	2
			Lump Sum	-	-
Kerry Thirkell, Chief Risk Officer (from August 2022)	-	16	Pension	-	-
			Lump Sum	-	-
John Burns, Chief Finance Officer (resigned May 2023)	18	15	Pension	58	11
			Lump Sum	99	15
Karlynn Sokoluk, Chief Operating Officer (from November 2022)	-	21	Pension	-	-
			Lump Sum	-	-
Helen Honeyman, Chief People Officer	16	22	Pension	7	3
			Lump Sum	-	-
Total	**89**	**102**		**253**	**32**

REMUNERATION REPORT

The pension entitlement of the LPF Group's colleagues whose remuneration during the year exceeded £150,000 is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2021/22	2022/23		As at 31 March 2023	Increase from 31 March 2022
Name and Post Title	£000	£000		£000	£000
Andrew Imrie, Portfolio Manager	22	23	Pension	36	6
			Lump Sum	17	-
Stewart Piotrowicz, Portfolio Manager	22	23	Pension	29	5
			Lump Sum	-	-
Ian Wagstaff, Portfolio Manager	22	23	Pension	27	4
			Lump Sum	-	-
Albert Chen, Portfolio Manager	20	21	Pension	13	3
				-	-
Ross Crawford, Portfolio Manager	20	21	Pension	11	3
				-	-
Nicola Barrett, Portfolio Manager	21	22	Pension	9	3
				-	-
Total	**127**	**133**		**142**	**24**

Exit packages

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. There was no payment of any exit packages in 2022/23 or in the previous year.

Remuneration for councillors on the Pensions Committee

Councillors on the Pensions Committee are remunerated by the City of Edinburgh Council; no additional remuneration is paid by the Fund.

ADDITIONAL INFORMATION

Key documents online

You can find further information on what we do and how we do it, on our website at www.lpf.org.uk. To view individual policy documents, click on the links below if viewing online or visit www.lpf.org.uk/publications.

- Actuarial Valuation reports
- Pension Board constitution
- Annual Report and Accounts
- Statement of Investment Principles
- Statement of Responsible Investment Principles
- Communications Strategy
- Funding Strategy Statement
- Strategy and Business Plan 2022/23
- Training and Attendance policy

Fund advisers

Actuaries:	Hymans Robertson LLP, Exchange Place 1, Semple Street, Edinburgh, EH3 8BL
Auditors	Azets, Exchange Place 3, Semple Street, Edinburgh, EH3 8BL
Bankers:	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh, EH2 2YB
Strategic advisers:	Kirstie MacGillvray and Stan Pearson
Investment custodians:	The Northern Trust Company, 50 Bank Street, Canary Wharf, London, E14 5NT
Investment managers:	Details can be found in the notes to the accounts.
Additional Voluntary Contributions (AVC) managers:	Standard Life, Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH M&G Corporate Services Limited, 10 Fenchurch Avenue, London EC3M 5AG.
Property valuations:	CBRE Ltd Valuation & Advisory Services, Henrietta House, 8 Henrietta Place, London W1G 0NB
Property Management and Property Fund Accounting:	Jones Lang LaSalle Limited: 30 Warwick Street, London, W1B 5NH
Property Legal:	CMS Cameron McKenna Nabarro Olswang LLP, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN Addleshaw Goddard LLP, One St Peter's Square, Manchester, M2 3DE
Solicitors:	Lothian Pension Fund In-house

ADDITIONAL INFORMATION

Comments and suggestions

We appreciate your comments and suggestions on this report. Please let us know which sections you found useful and if you have any suggestions for items to be included in the future. Please email your comments to pensions@lpf.org.uk.

Accessibility

You can get this document on audio CD, in Braille and large print if you ask us. Please contact Interpretation and Translation Service (ITS) on its@edinburgh.gov.uk and quote reference number XXXX. ITS can also give information on community language translations.

Contact details

If you would like further information about Lothian Pension Fund and Scottish Home Pension Fund, please contact us using the details on the back page of this report.

LOTHIAN
PENSION FUND

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The City of Edinburgh Council

Statement on the system of internal financial control

1. This statement is provided in respect of the internal financial controls operated by The City of Edinburgh Council. As the Council's designated section 95 officer as defined under the provisions of the Local Government (Scotland) Act 1973, I acknowledge my responsibility for ensuring that an appropriate system of internal financial control is in place and its on-going effectiveness regularly reviewed.

2. The system of control can provide reasonable, but not absolute, assurance that material control weaknesses or irregularities do not exist, and that there is no unacceptable risk of material error, loss, fraud or breach of legislation. Consequently, the Council continually seeks to improve the effectiveness of its systems of internal financial control so that irregularities are either prevented or detected within an acceptable period of time. Tracking of agreed internal audit actions forms a standing item on Corporate Leadership Team (CLT) agendas, with progress in implementation also regularly reported to the Governance, Risk and Best Value Committee. Progress in implementation of recommendations resulting from the external audit process is likewise reported to elected members.

3. In view of successive years' staffing reductions and various resulting changes in responsibilities, previous self-attestation exercises undertaken have been helpful in assessing the extent to which improvements have been embedded within service areas, highlighting a need for further action in some areas to implement and sustain the required controls. This exercise has subsequently been complemented, within the Corporate Services Directorate (where the majority of finance-related controls lie), by quarterly Service Performance and Assurance meetings and discussion at the Corporate Services Management Team at which progress in implementation of agreed actions is also considered.

Independent assessments of the effectiveness of the system of internal financial control

4. The effectiveness of the Council's internal financial control framework as a whole is subject to annual review by its external auditors, with the principal findings of the most recent annual assessment reported to the Governance, Risk and Best Value Committee in October 2022 (as part of the Council's Annual Audit). This assessment did not result in the identification of any significant weaknesses in these systems, albeit scope for improvement in the Council's payroll processes and controls was highlighted.

5. As with other systems across the Council, some aspects of the financial control framework have had to be adapted to a continuing home-working environment but with the emphasis consistently being on obtaining assurance in a different way rather than compromising or relaxing existing controls. Specific contingency plans had previously been developed in areas where service continuity is most crucial, including Financial Systems, Procurement, Treasury Management, Council Tax collection, Benefits Processing, Payroll and Supplier Payments. These plans have worked effectively following enforced and continuing offsite working and performance against a range of key targets in these areas has largely been maintained.

6. There remain, nonetheless, inherent risks within the Council's activities. Unsuccessful attempts to defraud the Council through a fictitious change of supplier details were made in December 2022, leading to updates in current procedures and refresher training being provided.

Risks included within Council risk register

7. A number of specific finance- and procurement-related risks linked to the COVID-19 emergency (and corresponding mitigating actions) were identified for inclusion in the Council Incident Management Team (CIMT) Risk Management Plan and actively monitored during 2021/22. While these COVID-specific risks have lessened somewhat, the Financial and Budget Management risk within the Council's Risk Report remains rated as high and outside the Council's current moderate risk appetite. This is mainly due to the impact of exceptional inflationary pressures alongside reduced resources and limited options identified for immediate savings. The Council also has a share of the substantial budget gap within the Edinburgh Integration Joint Board (EIJB). In light of these risks, the Council is developing a Medium-term Financial Plan (MTFP), albeit the related savings required to bridge these gaps remain at a formative stage. Development of robust and sustainable savings sufficient to bridge the immediate 2024/25 gap and make significant inroads into future years' requirements will therefore be a key priority in the coming months, particularly as I will be retiring at the end of September 2023.

Implementation of Internal Audit recommendations

8. The Finance Division has also taken forward, or embedded, a number of specific audit actions during the year, including the creation and maintenance of a shadow ICT register, improved contract management arrangements for high-risk contracts, enhanced financial systems training and improved oversight and consistency across a range of financial models, including a half-yearly, risk-based peer review. Finance colleagues are also working closely with relevant colleagues elsewhere within Corporate Services in implementing the recommendations of recent audits in the areas of payment card industry data security and purchase cards.

9. A review of the Council's capital budget-setting and management processes undertaken in early 2022 concluded that current arrangements were effective. A report on the procedures and processes for administration of the Transfer of the Management of Development Funding (TMDF) Grants also found these to be effective.

10. More recently, an internal audit examining procedures for Housing Revenue Account budget-setting and monitoring noted a number of positive aspects. In January 2023, the Council's preparations for implementation of the IFRS16 leasing standard were also favourably assessed.

11. The key findings and recommendations arising from a review of the Council's most recent budget-setting process will be reported to the Finance and Resources Committee of 20 June 2023 and Finance staff will work with relevant colleagues in taking any improvement actions forward. A Financial Management customer survey based on the CIPFA FM Code has also recently been completed and will be used to agree and implement improvement actions.

12. Progress in implementing internal audit actions is regularly considered by the Finance Management Team. As of the time of writing, there are no Finance-led actions where relevant work is not underway, with arrangements to track progress also in place.

13. As part of the Accounts Commission's national studies, an assessment of the Council's arrangements for the prevention and detection of fraud in procurement was also reported in May 2020 . The report highlighted only one moderate-level risk (the need to ensure checking of invoice sums with contract rates prior to payment authorisation), a reminder for which was sent to all relevant managers. A number of other areas of good practice were also identified, consistent with the Council's high Procurement and Commercial Improvement Programme (PCIP) rating.

Role of Internal Audit

14. The Internal Audit section operates in accordance with the Chartered Institute of Public Finance and Accountancy's United Kingdom Public Sector Internal Audit Standards (PSIAS). The Section undertakes an annual programme based on an agreed audit strategy. The plan is based on formal assessments of risk and audit needs which are reviewed regularly to reflect evolving risks and changes within the Council. During 2022/23, the section reported to the Head of Legal and Assurance. It also has, however, unfettered access to the Chief Executive, Executive Directors, Service Directors (including the Service Director: Finance and Procurement) and elected members of the Council when required.

15. The Head of Internal Audit will present an annual audit opinion on the adequacy and effectiveness of the system of internal control (including financial controls) to the Governance, Risk and Best Value Committee in September 2023. In line with the equivalent 2021/22 opinion, in-year progress reports on audit action implementation and internal audits newly undertaken, this is anticipated to consolidate recent improvements, albeit with further actions still required. The required control improvements implicit in this opinion will be examined and any corresponding necessary actions as they relate to financial systems implemented as a matter of urgency.

Elements of system of internal financial control

16. The existing system of internal financial control is based on a framework of regular management information, financial rules and regulations, administrative procedures (including segregation of duties), management supervision and a scheme of delegation and accountability. This system of control has been modified, where appropriate, to take account of the impacts of continuing homeworking, although as noted above this has been with a view to obtaining equivalent assurance in a modified way. The system is maintained and developed by Council management and includes:

- **comprehensive budgeting systems**;
- **preparation and regular review of periodic reports that measure actual financial performance against budgeted net expenditure**. Given the unprecedented nature and scale of the financial challenges facing the Council in 2020/21, the frequency of reporting to the Corporate Leadership Team and elected members (through the Leadership and Advisory Panel, Policy and Sustainability Committee and Finance and Resources Committee) was

greatly increased, with a focus not only on the immediate in-year position but estimated implications for the budget framework in future years. This reporting frequency was relaxed somewhat in 2022/23, albeit still at an enhanced level relative to pre-COVID periods;

- **agreement of targets against which financial and operational performance can be assessed.** Key amongst these financial targets is the achievement of a balanced Council-wide revenue outturn. Thanks to savings in corporate budgets, a provisional in-year underspend of £13.7m was achieved, alongside not requiring to draw down planned levels of reserves to offset in-year COVID-related impacts. While acknowledging that the majority were in corporate budgets, approved savings delivery in 2022/23 was some 98%, the highest level achieved since these have been actively tracked;
- **clearly defined capital and other expenditure guidelines** communicated to services and set out in the Finance Rules which were refreshed in May 2023. The Financial Regulations were also reviewed and minor amendments to their content made in May 2023;
- a **five-year revenue budget framework and ten-year capital strategy** approved by Council in February 2023. The Council's Best Value Assurance Review encouraged the Council, once the recurring impacts of the pandemic became clearer, to continue to look at opportunities to adopt medium- to longer-term financial planning. To this end, an update on the development of the Council's Medium-Term Financial Plan will be reported to the Finance and Resources Committee on 20 June;
- **formal project management disciplines** as supported and promoted through the Strategy and Communications section, including senior Finance representation on all major project boards and assurance review panels; and
- **formal governance arrangements operated within both subsidiary and associated companies**, complemented by a strengthened Council observer role. Service Level Agreements are also in place for finance-related services provided to a range of external bodies. In recognising the scale of the pandemic's operational and financial impacts on their activities, I also met with representatives of the Council's main Arm's-Length External Organisations (ALEOs) on a monthly basis during 2020/21, as well as regularly reporting these impacts to the Finance and Resources Committee, including two dedicated sessions to explore the issues concerned in greater depth. These meetings continue, albeit on a revised frequency.

17. My review of the effectiveness of the internal financial control system is informed by:

- **assurance certificates** on internal control received from all Executive Directors of the Council, service areas and relevant service heads;
- **regular senior management-level consideration of progress in implementing internal audit recommendations**, including self-attestation of previous actions where relevant;
- **governance arrangements in place for subsidiary and associated companies** and an on-going assessment of the effectiveness of these arrangements;
- the **work of managers** within the Council;
- the work of **Internal Audit**; and
- **external audit reports**, in particular the independent annual report on the Council's financial statements and internal control framework.

18. The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer (2014) as set out in the Application Note to Delivering Good Governance in Local Government Framework, an opinion confirmed as part of recent external audit scrutiny. Having reviewed the framework, it is therefore my opinion that, as in previous years, **although a degree of assurance can be placed upon the adequacy and effectiveness of the Group's systems of internal financial control, further improvements, including some embedding of actions taken in response to previous recommendations, are still required**.

19. I have overseen the improvements put in place in response to Finance-specific recommendations made by internal and external audit work during the year, with a number of actions additionally currently in progress. This said, the extent of change and reduction in overall resources in recent years has reinforced the importance of robust, documented and well-understood procedures for key system controls and, in light of the follow-up audits undertaken by both internal and external audit, a priority continues to be to consolidate these improvements, identify any further required actions and gain necessary assurance by regularly assessing their effectiveness. These arrangements have been thoroughly tested both during the COVID pandemic and amidst continuing home-working and, across the piece, have performed well although there is always room for improvement.

CIPFA Financial Management Code

20. 2022/23 marks the second year of implementation of the requirements of the CIPFA Financial Management (FM) Code. The Code is designed to support good practice and assist councils in demonstrating their financial sustainability and resilience by setting out expected standards of financial management.

    A focus has been maintained to embed improvements introduced through the 2021/22 and 2022/23 budget processes including:

    - maintaining an increased level of unallocated general reserve;
    - incorporating explicit revenue budget provision for underlying service pressures including temporary accommodation for homeless households;
    - continuing to reflect the ongoing impacts of the pandemic, particularly for losses of income; and
    - earlier publication of the schedule of proposed fees and charges for 2023/24.

21. Improvements introduced for the 2023/24 budget process include the following:

    - progress in the identification of service revenue budget savings, with £13.4m of new service savings options approved in setting a balanced revenue budget for 2023/24;
    - improved financial performance in service revenue budgets with the provisional outturn for 2022/23 showing services delivered within the approved revenue budgets across the Place, Children, Education and Justice Services and Corporate Services Directorates;

- the establishment of a formal change programme is underway to support the development of the Council's Medium-Term Financial Plan. The Year 1 focus will include the Social Care Operating Model, Inclusion Services and the HR/Pay Core System. The MTFP remains at a formative stage and the Council's Leadership Team, supported by service managers, will need to develop realistic and robust savings options to address projected medium-term funding gaps.

22. Further initiatives are completed or underway to support my assessment and further strengthen financial management arrangements including:

    - positive outcomes from Internal Audit reviews of financial management arrangements for both the Council's Capital Investment Programme and Housing Revenue Account;

    - a Financial Management customer survey has recently been completed based on the CIPFA FM Code and will be used to agree and implement improvement actions. Areas for development are likely to include greater use of benchmarking and other techniques to assess the value for money of services and to identify opportunities for improvement; and development of training necessary to support budget management including training in the use of core financial management systems.

    - updated Financial Management guidance is being finalised and will incorporate additional guidance on the Capital Investment Programme and Housing Revenue Account.

    - business cases to recruit additional professional accounting staff have been approved to recognise additional workload, risk and complexity relating to the Council's Capital Investment Programme and areas of the revenue budget including Housing, Refugee Support and Homelessness. Adequate resourcing of the Finance function will be a prerequisite for continued compliance with the requirements of the FM Code going forward.

23. These steps build on a number of aspects already in place that are conducive to enhancing the Council's longer-term financial sustainability including (i) regular reviews, reported to both CLT and elected members, of revenue and capital budget planning assumptions, (ii) close working between the CLT and the Budget Core Group and (iii) development of updated, detailed and consistently applied guidance for Finance staff used to assess savings implementation plans and mitigation of service budget pressures.

24. While the above position reflects a number of positive aspects, I have continued to impress upon all elected members and CLT the need for additional savings proposals to be brought forward if the Council's financial sustainability is to be maintained.

25. The urgent need to initiate a structured medium to longer-term savings programme was also highlighted in both the Council's Best Value Assurance Report and the external auditor's report for 2021/22 and while I am somewhat disappointed at the time it has taken to initiate this programme, relevant work is now underway. Given the extent of the financial challenge, members will need to make increasingly difficult choices about the Council's priorities, including considering service reductions, across all service areas to maintain expenditure in line with available income.

26. In addition to the Council's own activities, I have considered the immediate and potential on-going impacts of the pandemic on major projects within the city, including the St James Centre Growth Accelerator Model (GAM), Tram Extension and Edinburgh International and Conference Centre (EICC) Hotel project. There has, and continues to be, a need to revisit relevant business cases in light of these significant changes in the external environment and I will therefore keep all under active review in the coming months.

27. Consideration of the FM Code has also highlighted a number of areas where I assess further actions are potentially required going forward, including a need, in some cases, for more systematic options appraisal to be undertaken. In addition, improvements could be made to the effectiveness of current service arrangements in demonstrating value for money, including their contribution to broader Council objectives. Relevant actions will continue to be taken forward with CLT colleagues.

Hugh Dunn
Service Director: Finance and Procurement
2 June 2023

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Appendix 3

Annual Report 2023
of
Lothian Pension Fund
and
Scottish Homes Pension Fund

"Statement on the system of internal financial control

for the year ended 31 March 2023"

Section 95 of the Local Government (Scotland) Act 1973 states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs". Service Director: Finance and Procurement serves as the Section 95 Officer for all of the City of Edinburgh Council's accounting arrangements, including those of the Lothian Pension Fund and Scottish Homes Pension Fund.

In compliance with standard accounting practice, the Section 95 Officer, is required to provide the Chief Executive Officer with a statement of the effectiveness of the internal financial control system of the Funds for the year ended 31 March 2023.

The Funds place reliance upon the internal financial controls within the City of Edinburgh Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. Accordingly, the "Statement on the system of internal financial control" APPROVED by Hugh Dunn, Service Director: Finance and Procurement, City of Edinburgh Council, dated June 2023, refers.

Within this overall control framework, specific arrangements for the Lothian Pension Fund and Scottish Homes Pension Fund are detailed in the Annual Governance Statement. These include:

- identifying the objectives of the Funds in Funding Strategy Statement, Statement of Investment Principles and Service Plan;
- a systematic approach to monitoring service performance by the Pensions Committee, Pensions Audit Sub-Committee, senior officers and stakeholders, including the Pension Board and Independent Professional Observer;
- a structured programme to ensure that Pension Committee members have the required standard of knowledge and understanding of Local Government Pension Scheme matters;
- operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statements of Investment Principles;
- compliance with the CIPFA Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme;
- with the exception of managed funds, unlisted investments and property, all investments are held under custody by a global custodian. The Funds benefit from the custodian's extensive internal control framework;
- benchmarking of services in terms of standards and cost against other Local Government Pension Scheme funds, other public service pension schemes and private sector funds;
- LPFE and LPFI operating within their respective constitutional documentation and the relevant company regulations;
- LPFI operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority regulations

The internal audit function for Lothian Pension Fund and Scottish Homes Pension Fund is provided by the City of Edinburgh's Chief Internal Auditor and forms part of our assurance framework. Based on audit reviews undertaken and liaison with the Chief Internal Auditor to-date, suitable reliance can continue to be placed upon the LPF control environment and governance and risk management frameworks.

It is my opinion, therefore, that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control for the LPF Group in administering the Lothian Pension Fund and Scottish Homes Pension Fund.

Hugh Dunn
Service Director: Finance and Procurement
2 June 2023

Pensions Audit Sub Committee

2.00pm, Tuesday, 19 June 2023

Lothian Pension Fund - Internal Audit Annual Report and Opinion for the Year Ended 31 March 2023

Item number 6.3

1. Recommendations

The Pensions Audit Sub Committee is requested to:

1.1 note the Internal Audit Annual Report and Opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2023.

Laura Calder
Head of Internal Audit

Legal and Assurance, Corporate Services Directorate

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Lothian Pension Fund - Internal Audit Annual Report and Opinion for the Year Ended 31 March 2023

2. Executive Summary

2.1 This report outlines the work completed by the City of Edinburgh Council's Internal Audit (IA) function for the Lothian Pension Fund (LPF) the year 1 April 2022 to 31 March 2023.

2.2 The report also details Internal Audit's annual opinion on the adequacy and effectiveness of LPF's governance, risk and control frameworks for the year ended 31 March 2023, which should be used to inform the Annual Governance Statement.

2.3 The annual opinion is based on the outcomes of the three audits completed during 2022/23, follow-up action for previously completed audits, and an overall understanding of issues impacting LPF.

2.4 IA's annual opinion for 2022/23 is '**Reasonable Assurance'** (amber), reflecting that assurance activity has assessed LPF as having a generally sound system of governance, risk management and control in place. IA work completed during the year has identified some issues, areas of non-compliance and scope for improvement which may put at risk the achievement of objectives if not addressed, however management have agreed appropriate corrective actions.

2.5 The 2022/23 IA opinion remains 'limited' as work completed by IA during the year was limited to LPF only. As agreed by Committee in March 2023, the audit universe has been expanded from 2023/24 onwards to enable IA to provide assurance across the LPF Group, with inclusion of both LPFI and LPFE.

2.6 Consequently, the Committee should consider the assurance outcomes provided by other sources during 2022/23 when forming their view on the design and effectiveness of LPF Group's governance, risk, and control frameworks.

3. Background

3.1 Internal Audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which requires the Chief Audit Executive to provide an annual opinion on the adequacy and effectiveness of LPF's governance, risk and internal control environment. This is achieved through completion of a risk-based plan audit plan, the results of which should provide an appropriate level of assurance.

3.2 Internal control can be defined as the whole system of checks and controls, financial or otherwise, established by management to provide assurance regarding the achievement of an organisation's objectives.

3.3 No system of internal control can provide absolute assurance that control weaknesses or irregularities do not exist, or that there is no risk of material errors, losses, fraud or breaches of laws and regulations. Accordingly, the Committee should seek continual improvement in the effectiveness of LPF's systems of internal control.

3.4 In March 2023, the Committee approved adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) standard definitions for audit opinions to support consistency across public body organisations. Details of the standard definitions are provided at Appendix 1.

3.5 The annual opinion does not imply that Internal Audit has reviewed all risks relating to LPF. It is the responsibility of senior management to establish an appropriate and sound system of governance, risk, and internal control, and to monitor the continuing effectiveness of that system.

4. Main Report

2022/23 Internal Audit annual activity

4.1 The audit plan approved in September 2022 included input of circa 85 days across the following four audits:

- Project Forth – Programme Governance
- Third Party Supplier Management
- Information Governance
- Information Security Arrangements

4.2 The Information Security Arrangements audit was deferred to the 2023/24 Internal Audit plan at the request of management, and subsequently approved by the Pensions Audit Sub-Committee in March 2023.

4.3 The plan also included follow-up of previously completed audits, subsequently completion of the three audits and follow-up resulted in circa 65 days in total being delivered during 2022/23.

4.4 Internal Audit work was performed by the Council's co-source internal audit provider, PwC. All work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards, with oversight from the Council's Head of Internal Audit.

Audit outcomes

4.5 Three internal audits were completed during 2022/23, with two assessed as 'Reasonable Assurance' and one assessed as 'Limited Assurance'.

4.6 A total of 19 findings were raised across the three audits (4 high; 9 medium; and 6 low). Further detail on the overall outcomes of the audits findings raised is provided within Table 1 with detailed narrative below.

Table 1: Outcomes of completed 22/23 LPF internal audits

Audit	Date completed	Overall assurance rating	No of findings		
			H	M	L
Project Forth – Programme Governance	January 2023	Reasonable Assurance	0	4	3
Third Party Supplier Management	February 2023	Limited Assurance	2	3	1
Information Governance	April 2023	Reasonable Assurance	2	2	2
		Total	**4**	**9**	**6**

Alignment to risk management

4.7 Issues identified across the three audits completed were related to following LPF risks:

- **Project and change** (7 issues) – while no major project management gaps were identified in the Project Forth – Programme Assurance review, a number of opportunities to strengthen key project controls were identified. This included formalising project governance controls such as change control; management of benefits, risk, and quality.

  It was recognised that due to the uncertainty around whether Project Forth would proceed, a proportionate and measured approach was required in this instance. However, LPF should ensure that formal governance processes are adopted as a standard approach to ensure that projects are consistently and effectively managed.

  As at March 2023, the score for the Project and Change risk as recorded on LPF's risk register was 32 (amber), which reflects a fair assessment of the governance, risk, and control environment. Management plan to mitigate this further through the introduction of a project and change control process in Q1 2023.

- **Data protection / Information Rights** (6 issues) – the move to a new IT provider in 2021 necessitated creation of a new Information Governance framework for LPF, with refreshed policies and procedures agreed with the Council's Information Governance Unit, and a formal Information Security project established. Due to unforeseen circumstances, progress was delayed during 2022/23.

  Internal Audit recognises the progress made and LPF's overall aspiration and commitment to implement a robust control framework. A number of recommendations were made to support and enhance development of that framework including developing a roadmap to formalise development of the supporting suite of policies and procedures; implementation of access management procedures; alignment of data classifications; and development of governance and monitoring controls.

  As at March 2023, the scores for the both the Data protection / Information Rights risks as recorded on LPF's risk register were 24 and 20 (green) respectively. This scoring should be reviewed based on both audit outcomes and in line with progress of ongoing mitigating actions, to ensure that it accurately reflects the current effectiveness of key controls.

- **Supplier/third-party systems** (6issues) – LPF developed its Supplier Management Framework during 2022 which was recognised to be in the early stages of implementation at the time of audit work.

  Audit findings and recommendations aimed to support ongoing development and implementation of the framework including development of key processes such as contract exit planning; improving supplier onboarding processes; training and awareness and ongoing monitoring.

  As at March 2023, the score for the Supplier/third-party systems risk as recorded on LPF's risk register was 25 (green). This scoring should be reviewed based on both audit outcomes and in line with progress of ongoing mitigating actions, to ensure that it accurately reflects the current effectiveness of key controls.

Follow-up of previously raised Internal Audit actions

4.8 As at 31 March 2023, there were a total of 28 outstanding management actions arising from internal audit reviews.

4.9 A total of 18 audit actions (1 high; 7 medium; and 10 low rated) were closed during 2022/23 and 29 new actions were raised following completion of audits.

4.10 Three actions are passed their original implementation date, however revised dates aligned to ongoing management activities have been agreed.

4.11 The closure of 18 actions demonstrates management's commitment addressing audit actions and strengthening the overall governance, risk and control environment.

4.12 Details of follow-up activity during 2022/23 and the status of previously raised IA actions is provided at Table 2 below.

Table 2: Previously completed audits followed-up 2022/23

Audit	Audit date	Status	Comments
Settlement and Custodian Services	June 2020	Closed August 2022	All actions closed
Bulk Transfers	August 2021	**25% Complete** 4 actions 1 complete 3 not yet due	Not yet due
Cessations	November 2021	Closed December 2022	All actions closed
Technology Model Development	February 2022	**86% Complete** 7 actions 6 complete 1 action overdue (revised date provided)	Work done to date has identified that a wider review and categorisation of systems by criticality is required, to allow a proportionate approach. Completion of this will be co-ordinated with other projects (IT and Supplier Management).
Capital Calls	March 2022	Closed December 2022	All actions closed
Employer Contributions	March 2022	Closed December 2022	All actions closed
Risk Management	August 2022	**33% Complete** 3 actions 1 complete 2 overdue (revised dates provided)	A wider review and uplift of LPF's Risk Management Framework is underway and the observations made by Internal Audit will be integrated into this review.

Audit	Audit date	Status	Comments
Project Forth – Programme Assurance	January 2023	Closed March 2023	All actions closed

2022/23 Internal Audit annual opinion

4.13 The Internal Audit annual opinion for 2022/23 is **'Reasonable Assurance'** (amber), reflecting that assurance activity has assessed LPF as having a generally sound system of governance, risk management and control in place. IA work completed during the year identified a number of issues, areas of non-compliance and scope for improvement which may put at risk the achievement of objectives if not addressed, however management have agreed appropriate corrective actions.

Assurance definitions are provided at Appendix 1.

Comparison to prior year (2021/22)

4.14 The opinion of Reasonable Assurance remains aligned to 2021/22 annual opinion.

4.15 A direct comparison between Internal Audit annual opinions is not always possible as the scope of the audits included in the annual plans and the risks associated with open and overdue IA findings will vary in line with the changing LPF risk profile.

4.16 The four LPF audits completed in 2021/22 were assessed as one amber (reasonable assurance) and three green (substantial assurance) with a total of 12 (4 medium and 8 low) IA findings raised.

4.17 The increased number of findings raised in 2022/23 (from 12 to 19) is mainly attributable to the nature of the areas reviewed, Project Forth and the ongoing development of the LPF information governance and supplier management framework all of which are essential parts of LPF's strategy. It is not unexpected to see a higher level of improvement actions as processes are embedded, the number of issues should reduce as the design and operating effectiveness of controls matures.

4.18 The status of open IA findings at 31 March 2023 remains broadly aligned to 2021/22. Management have committed to completing actions associated with the majority of findings by 31 December 2023.

Internal Audit Independence and Conformance with Public Sector Internal Audit Standards

4.19 In line with PSIAS, IA must be independent, and all internal auditors must be objective in performing their work. To ensure conformance with these requirements, IA has established processes to ensure that both team and individual independence is consistently maintained and that any potential conflicts of interest are effectively managed.

4.20 We do not consider that we have faced any significant threats to our independence during 2022/23, nor do we consider that we have faced any inappropriate scope or resource limitations when completing our work.

4.21 Detailed Internal Audit work was performed by the Council's co-source internal audit provider, PwC during 2022/23. All work was performed in accordance with PwC's Internal Audit methodology and quality standards which is in conformance with the PSIAS, with oversight from the Council's Head of Internal Audit.

4.22 An Internal Quality Assessment and PSIAS self-assessment was performed during the period, led by a senior auditor. The assessment team concluded that IA has complied with PSIAS requirements during the period 1 April 2022 to 31 March 2023. A number of minor improvements were identified, mainly linked to efficiency and workflow. It is envisaged that the majority of these will be mitigated through implementation of our new audit system due to go live in June 2023.

5. Financial impact

5.1 There are no direct financial impacts arising from this report, although failure to close management actions and address the associated risks in a timely manner may have some inherent financial impact where associated financial risks have been identified.

6. Stakeholder/Regulatory Impact

6.1 IA recommendations are raised when control gaps or deficiencies are identified during audits. If management actions are not implemented, LPF will be exposed to the risks associated with the key processes, including the potential risk of non-compliance with applicable regulations.

7. Background reading/external references

7.1 Public Sector Internal Audit Standards

7.2 2022/23 approved rebased Internal Audit Plan – Item 6.4 September 2022

7.3 2023/24 approved Internal Audit Plan – Item 6.3 March 2023

8. Appendices

Appendix 1 Internal Audit Opinion Definitions March 2023

Appendix 2 Limitations and responsibilities of internal audit and management responsibilities

Appendix 1 – Internal Audit Opinion Definitions March 2023

In line with the Chartered Institute of Public Finance and Accountancy (CIPFA) April 2020 review of IA Engagement Opinions – Setting Common Definitions, in March 2023, LPF adopted the CIPFA standard audit opinion definitions as detailed below:

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of LPF objectives.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of LPF objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of LPF objectives.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of LPF objectives.

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute.

Appendix 2 - Limitations and responsibilities of internal audit and management responsibilities

Limitations and responsibilities of internal audit

The opinion is based solely on the internal audit work performed for the financial year 1 April 2022 to 31 March 2023. Work completed was based on the terms of reference agreed with management for each review. However, where other matters have come to our attention that are considered relevant, they have been considered when finalising our reports and the annual opinion.

There may be additional weaknesses in the LPF control environment and governance and risk management frameworks that were not identified as they were not included in the 2022/23 LPF annual internal audit plan, were excluded from the scope of individual reviews, or were not brought to Internal Audit's attention. Consequently, management and the Committee should be aware that the opinion may have differed if these areas had been included.

Control environments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls, and the impact of unplanned events.

Future periods

The assessment of controls relating to LPF is for the year ended 31 March 2023. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation, or other areas or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Audit

It is Management's responsibility to develop, implement, and maintain effective control environments and governance and risk management frameworks that are designed to prevent and detect irregularities and fraud. Internal audit work should not be regarded as a substitute for Management's responsibilities for the design and operation of these controls.

Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, performs additional work directed towards identification of potential fraud or other irregularities. However, Internal Audit procedures alone, even when performed with due professional care, do not guarantee that fraud will be detected. Consequently, Internal Audit reviews should not be relied upon to detect and disclose all fraud, defalcations or other irregularities that may exist.

Pensions Audit Sub-Committee

2pm, Tuesday, 19 June 2023

Lothian Pension Fund - Internal Audit Update - June 2023

Item number 6.4

1. Recommendations

The Pensions Audit Sub-Committee is requested to note:

1.1 Finalisation of the 2022/23 the Lothian Pension Fund internal audit plan, including the outcomes of the recent Information Governance audit;

1.2 Planning for the 2023/24 the Lothian Pension Fund internal audit plan has commenced with an indicative timetable agreed for completing the five audits within the plan;

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

1.4 The IA annual activity report and opinion which provides an assessment of the overall effectiveness of the Lothian Pension Fund's governance, risk, and control framework for 2022/23 is presented to the Committee for review in a separate paper at this meeting.

Laura Calder

Head of Internal Audit, City of Edinburgh Council

Legal and Assurance, Corporate Services Directorate

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Lothian Pension Fund - Internal Audit Update - June 2023

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 across the period from 10 February to 1 May.

2.2 The three audits included in the 2023/24 IA annual plan agreed by Committee in September 2022 are now complete.

2.3 A report detailing the outcomes of the Information Governance audit recently completed is included for the Committee's review and scrutiny.

2.4 Planning for the 2023/24 LPF internal audit plan has commenced with an indicative timetable agreed for completing the five audits within the plan.

2.5 As at 27 April 2023, LPF had 28 management actions with 3 actions passed the original implementation date. A total of 8 actions have been closed since February, and 22 new actions raised following completion of audits.

2.6 The IA annual activity report and opinion which provides an assessment of the overall effectiveness of LPFs governance, risk, and control framework for 2022/23 is presented to the Committee for review in a separate paper at this meeting.

3. Background

2022/23 Internal Audit Annual Plan

3.1 The 2022/23 LPF IA plan comprised of three audits following approval from the Pensions Audit Sub Committee in March to defer the Information Security Arrangements audit to the 2023/24 LPF annual IA plan.

3.2 **2023/24 Internal Audit Annual Plan**

The 2023/24 LPF IA plan, which comprises five audits was agreed by the Pensions Audit Sub Committee in March.

Internal Audit Follow-Up Process

3.3 IA follow up on progress with implementation of management actions arising from IA reports. A risk-based approach to follow-up is applied, with all high rated management actions validated by IA 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

2022/23 LPF IA annual plan

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

- Project Forth – Programme assurance (complete December 2022)
- Third-party supplier management (complete March 2023)
- Information governance (complete April 2023)
- Information Security Arrangements

4.2 Following agreement from the Pensions Audit Sub Committee in March 2023, the Information Security Arrangements audit has been deferred to the 2023/24 LPF annual IA plan. Indicative timing is agreed for September 2023, to allow sufficient time to implement associated findings from the recently completed Information Governance audit.

4.3 The Information Governance audit is now complete and a report detailing the outcomes is included at Appendix 1 for review and scrutiny by Committee. The overall assurance rating for this audit is Reasonable Assurance, with a total of 6 findings raised (2 high, 2 medium and 2 low).

4.4 Our review recognises that the new policies and procedures are still being embedded and notes the aspiration to improve the overall information security posture within LPF. Our findings are intended to enhance and strengthen LPF's information governance framework across the following areas:

- implementation and development of key policy, standards, and procedures
- establishing guidance for granting, managing and revoking access to LPF systems and data
- ensuring the recently created data classification and handling standard is cross referenced across other relevant key policies and processes
- establishing clear roles and governance structures for information governance
- monitoring policy compliance
- enhancing the Information Asset Register

2023/24 LPF IA annual plan

4.5 The 2023/24 IA annual plan agreed by Committee in March 2023 includes the five reviews, with proposed timescales for completion of these audits as follows:

Audit	Timescale
People Processes	Q1/Q2 Mid- May to July
Senior Manager Certification Regime	Q2/Q3 Aug to October
Business Continuity and incident response	Q2/Q3 Aug to October

Information Security Arrangements	Q2/Q3 September to December
Project Forth – Targeted review	To be confirmed

Status of Open IA management actions as at 27 April 2023

4.6 As at 27 April 2023, LPF had 28 agreed management actions (8 high, 16 Medium and 4 Low) which were raised across the following audits:

- Bulk Transfers (3)
- Risk Management (2)
- Technology Model Development (1)
- Third Party Supplier Management (7)
- Information Governance (15)

4.7 Three management actions have passed their original implementation date, however revised dates have been provided by management reflecting ongoing actions. Details are included at items 4, 5 and 6 on Appendix 2.

4.8 The remaining 25 management actions are not yet due for completion and implementation is currently being progressed by LPF. Details of the management actions and progress, where relevant are provided at Appendix 2.

5. Financial impact

5.1 Failure to close management actions and address the associated risks in a timely manner may have financial impacts which are not yet measurable.

6. Stakeholder/Regulatory Impact

6.1 IA recommendations are raised when control gaps or deficiencies are identified during audits. If management actions are not implemented, LPF will be exposed to the risks associated with the key processes, 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 – 2022/23 Internal Audit Annual Plan – September 2022

7.3 Lothian Pension Fund – 2023/24 Internal Audit Annual Plan – March 2023

8. Appendices

Appendix 1 Internal Audit Report - Information Governance

Appendix 2 LPF outstanding audit actions as at 27 April 2023

Appendix 1

Internal Audit Report

Lothian Pension Fund – Information Governance

5 May 2023

LPF2203

Overall Assessment	Reasonable Assurance

Contents

Overall Assessment	Reasonable Assurance

Executive Summary

Overall opinion and summary of findings

Lothian Pension Fund (LPF) moved to a new IT provider in 2021 which necessitated the creation for a new Information Governance framework. A suite of new policies and procedures were developed during the last quarter of 2022.

Our review recognises that the new policies and procedures are still being embedded and notes the aspiration to improve the overall information security posture within LPF. Our findings are intended to enhance and strengthen LPF's information governance framework.

- **Policy, Standards & Procedures implementation –** numerous policies and procedures are currently in draft state or yet to be created. A further six documents that are currently not planned to be created but which would contribute to effective information governance were also identified. Additionally, LPF has not established a process or mechanism to update and manage all the policies and procedures centrally.

- **Access management –** LPF do not have dedicated policies and procedures for controlling access to data, with an overall absence of guidance around the process for how access should be granted, managed, and removed for LPF systems and data.
- **Data classifications** – whilst a new data classification policy was recently created (Data Classification and Handling Standard), data classifications have not yet been referenced in other policies.
- **Information governance structure** – LPF does not currently have an overarching governance forum that is responsible for oversight of Information Governance and provides a regular touchpoint with the City of Edinburgh Council's Data Protection Officer. Additionally, both data and system owners within LPF are called Information Asset Owners creating potential confusion regarding roles & responsibilities.
- **Compliance monitoring –** whilst LPF has a compliance monitoring plan in place, the majority of information governance related policies are not featured within the plan. Consequently, there is minimal monitoring over compliance, including breaches of policies.
- **Information Asset register -** the Information Asset register is not sufficiently detailed. It has not combined the Third-party Systems list and does not overlay the current Retention Schedule across it, to enable a holistic view over LPF's data.

Areas of good practice

- The Information Governance Policy acts as a 'directory', coordinating all information governance policies, procedures, and their respective activities
- Information Governance policies and procedures are centrally stored within LPF's SharePoint and available to all LPF members, with these documents communicated across LPF via email, face to face training, all colleague calls, and the annual declaration form.

Management response

As described in the background section, a number of assurance and uplift activities have been undertaken since 2021, including an Information Governance project where refreshed policies and procedures were agreed with CEC's Information Governance Unit, and a formal Information Security project. Du e to unforeseen events during Q4 2022 and Q1 2023, implementation and planned improvements – including access and change management, data classification, compliance monitoring – have been delayed. LPF will incorporate the identified recommendations into the rebased project activities, which will ensure a co-ordinated and robust approach to Information Governance and Information Security arrangements across LPF.

Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Policies and Procedures			Finding 1: Policy, standards & procedures implementation	High Priority
2. Data classification and ownership		N/A	Finding 2: Access management	High Priority
3. Data Classification and Ownership		N/A	Finding 3: Data classifications	Medium Priority
4. Governance		N/A	Finding 4: Information governance structure	Medium Priority
5. Compliance Monitoring		N/A	Finding 5: Level of compliance monitoring	Low Priority
6. Data Classification and Ownership			Finding 6: Information Asset register	Low Priority

See Appendix 1 for Control Assessment and Assurance Definitions

Background and scope

Lothian Pension Fund (acting through its administering authority the City of Edinburgh Council (the Council)) is a local government pension fund in Scotland with over 80,000 members and c.90 employers. LPF holds data about its members and their next of kin which allows it to perform core functions such as collecting pension contributions and paying pension benefits.

Therefore, it is key for the LPF to ensure that the information and data it holds is well managed, appropriately classified, utilised for maximum benefit across pension scheme where possible and retained in line with relevant compliance requirements, which is enabled by good governance around the management and use of data. Being the data processor and operating in a regulated environment, it is necessary for LPF to understand the value of their data to ensure it is managed securely.

LPF moved to a new IT provider in 2021 and previously followed the Council's information Governance framework. At the point of transferring to the new provider they could no longer access the Council's policy and procedures and therefore set out to create their own Information governance framework and data related policies, with the aim of completing them by end of 2022. An information security project was commenced, with an external consultant engaged to audit LPF against the NIST (National Institute of Standards and Technology) security framework and a project plan created to remediate the findings of this audit

Whilst LPF own the contract with their incumbent IT provider, the Council are considered as the data controller. The new framework and data policies have been developed alongside the Council but tailored to meet LPF's standards and requirements.

Scope

The objective of this review was to assess the adequacy of design effectiveness of the key controls established to ensure LPF's controls over data strategy and information governance.

This included consideration of key controls over strategy and governance including how the roles and responsibilities of LPF stakeholders fit together to ensure that the data is well managed. The review also considered data classification and ownership, and data content management.

Risks

The review also assessed the following LPF risks:

- Data protection
- Information Rights

Limitations of Scope

Internal audit testing was performed on a sample basis with a focus on key controls mitigating risks.

Testing was designed to assess the adequacy and effectiveness of key controls in operation during 2022/23.

Work on data protection was limited to understanding what steps LPF have adopted to ensure compliance with the data protection process and does not represent a compliance audit.

Reporting Date

Testing was undertaken between 6 February 2023 and 10 March 2023.

Our audit work concluded on 10 March 2023, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Policy, Standards & Procedures Implementation

Finding Rating	High Priority

Formal policies, standards, and procedures covering all activities across the entire information lifecycle should be in place. These should align with relevant regulation and standards, including any applicable from regulators such as Pensions Regulator or the Information Commissioner's Office (ICO), and be subject to regular review and update.

LPF are currently in the process of redesigning their wider information governance approach and, due to unexpected circumstances, this project is behind schedule. However, the following issues were observed during this review:

1. The following f documents which would support effective information governance within LPF have not been created and management have advised there is no current plan to create them:
    - Matrix on roles (RACI) to execute the current deliverables
    - Data Strategy
    - Data Archiving policy
    - Information Governance Control Framework
2. Of the forty five policies featured in LPF's ISMS (information security management system) document tracker, there are sixteen policy, standard and procedure documents relating to information governance that are not yet created or are still in draft (see Appendix 2). Additionally, no formal roadmap to create and implement these policies exists.
3. Whilst policies have formal review dates and version control, there is no centralised monitoring and management of these policies to ensure policies are subject to regular review and updates in line with review dates.

Risks

Data protection/ Information Rights

- absence of key policies may result in lack of understanding for key processes and result in a potential breach of operational and information security standards.

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Recommendations and Management Action Plan: Policy, Standards & Procedures Implementation

Ref.	Recommendation	Agreed Management Action	Owner	Lead Officer	Timeframe
1.1	Management should consider whether the following policies noted as absent are required for LPF: • Matrix on roles (RACI) to execute the current deliverables • Data Strategy • Data Archiving policy	Ownership of deliverables will be document as part of 1.2 action, for Information Security Project. LPF will incorporate data strategy, data archiving, and information governance	Chief Executive Officer (LPF)	Chief Risk Officer	RACI: 30/06/2023 Others: 31/12/2023

	• Information Governance Control Framework	controls into new or existing documentation.			
1.2	LPF should create a roadmap, covering the development and implementation of the policies required. The roadmap should include set milestone dates for creating and/or releasing with assigned owners responsible for delivery.	LPF's existing Information Security project is being rebased, and the new project will specify plans for delivery of remaining policies / artifacts - including dates and owners.	Chief Executive Officer (LPF)	Head of IT	30/06/2023
1.3	LPF should implement a clearly defined process to ensure a centralised management of policies and procedures to ensure policies are reviewed at a defined timescale and in collaboration with relevant stakeholders.	LPF will implement a group-wide approach for centralised management of policies and procedures.	Chief Executive Officer (LPF)	Chief Risk Officer	31/12/2023

Finding 2 – Access management

Finding Rating	High Priority

Robust access management control procedures and policies preserve the integrity of the IT environment, ensuring that only appropriate users are granted access to systems and data.

LPF do not currently possess dedicated policies and procedures for controlling access to systems and data. There is an overall lack of guidance around the process for how access should be granted, managed, and removed to LPF systems and data. Our review noted the following issues with access management:

1. A formal Joiners, movers, leavers policy has not been developed. In addition, there is no formal process in place to ensure that leavers access to systems and data is revoked on a timely basis.
2. An identity and access management policy is currently in draft. However, it does not include a detailed process for how access should be granted, reviewed, and removed as required.
3. LPF's current access management policies do not detail what additional procedures and controls should be applied when third parties and/or contractors are accessing LPF's data.

Risks

Data protection / Information Rights

- data may not be restricted to appropriate individuals resulting in unauthorised access and/or data leakages leading an increased risk of data breaches.
- key data required to enable officers to undertake their roles may not be accessible resulting in a negative impact on operational performance.

Recommendations and Management Action Plan: Access Management

Ref.	Recommendation	Agreed Management Action	Owner	Lead Officer	Timeframe
2.1	LPF should create and implement a formal Joiners, Movers, Leaver's policy. This should focus on processes to ensure access to applications are granted and removed in a timely manner, providing prescriptive procedures for LPF staff to follow. The policy should include implementation of a regular quality check to review movers and leavers and ensure access rights remain appropriate and access has been revoked where relevant. This policy should be delivered as part of the policy roadmap at recommendation 1.2.	LPF's existing approach to Joiner Movers Leavers will be documented. Documentation of access rights and processes will be co-ordinated across JML and new Change & Access policies and procedures.	Chief Executive Officer (LPF)	Chief People Officer	31/12/2023

2.2	LPF should update the draft access control procedure to include a detailed process for granting and managing access to LPF users and applying any additional controls for granting access to external parties (where applicable)	LPF's draft Change Management and Identity and Access policies will be updated to cover granting, management, and removal of users. Measures re external party access will also be documented.	Chief Executive Officer (LPF)	Head of IT	31/12/2023

Finding 3 – Data classifications

Finding Rating	Medium Priority

Effective and accurate classification of data is critical to ensuring that the nature and contents of the data is understood and clearly visible within the organisation, enabling appropriate management activities to be undertaken and compliance with applicable guidelines (i.e., GDPR, Government security classifications, pension regulator) maintained.

Our review noted that LPF does not use data classifications to inform the management & governance activities they undertake over the data. The following issues were observed:

1. Whilst a new data classification policy was recently created, data classifications have not yet been referenced in other documentation where it would be expected that data classifications are a factor in dictating how types of data should be handled. These documents include but are not limited to:
    - Data Retention Schedule
    - Information Asset Register
    - Data Breach Policy
2. The data classification policy does not acknowledge special categories or sensitive data, with all personal data covered under a single classification (Personal confidential) and no distinguishment made between the different types of personal data held by LPF.
3. Record retention periods are currently determined independently of data classification, this being a consequence of LPF having not yet updated the record retention periods they inherited from the Council. Additionally, whilst a record retention schedule exists and is utilised, no document providing higher-level guidance and principles on determining what records should be retained for a certain period exists.

Risks

Data protection / Information Rights

- inadequately classified data may lead to inconsistencies in requirements for capturing, processing, storing and retention and the same type of data potentially being treated different across the organisation; and
- business units may not have identified all data protection risks, leading to potential non-compliance and financial penalties and reputational damage.

Recommendations and Management Action Plan: Data classifications

Ref.	Recommendation	Agreed Management Action	Owner	Lead Officer	Timeframe
3.1	LPF should perform a review to identify which policies should reference and apply the data classifications policy. For policies where this applies, the policy should be updated so data classification directly determines the management and governance activities that are undertaken. This recommendation should be implemented once recommendations 1.1 and 1.2 are completed, so a	As part of LPF's planned data classification implementation, existing documents will be reviewed to ensure they reference, and align with, data classification approach.	Chief Executive Officer	Chief Risk Officer	31/12/2023

	complete suite of policies is available for review and updating.				
3.2	LPF should update the data classification policy, to ensure it explicitly identifies the different categories of personal data in accordance with GDPR guidelines, including special categories. The policy should also provide a clear definition of a 'data asset' and align the policies to this definition as a baseline.	LPF will update data classification policy to specify approach to special category data. LPF will define 'data asset' and align policies to this definition.	Chief Executive Officer	Head of IT	31/12/2023
3.3	LPF should update the retention schedule, so a data asset's classification influences the asset's retention period. Alongside this, LPF develop a high-level document which provides guidance on how the data retention periods should be determined in relation to data classification.	LPF will: 1. create documented guidance on how retention periods are determined, including how CEC's requirements are tailored to LPF. 2. update retention schedule to align with LPF's data assets	Chief Executive Officer	Chief Risk Officer	31/12/2023

Finding 4 – Information governance structure

Finding Rating	Medium Priority

A dedicated, robust governance structure is essential to sustain good information governance, providing key stakeholders with adequate and appropriate visibility and oversight regarding data and information governance. Clearly assigned ownership of data assets within this structure is critical to ensuring effective maintenance and compliance with organisation policies and standard occurs.

Review of LPF's current information governance structure highlighted:

1. There is no overarching governance forum that represents the central management function and authority regarding information governance. This may be covered in other forums (Risk Management Group and IT Oversight Change Group (ITOCG)) however these forums do not include specific roles in relation to information governance within their Terms of Reference.
2. Dedicated reporting on information governance is not provided to stakeholders, both within LPF and the Council, reducing the ability for stakeholders to influence decisions around information governance.
3. No central document summarising all information governance stakeholders within LPF (RACI Matrix) exists, with this information currently spread over multiple different sources.
4. Within documentation both data and system owners within LPF are called Information Asset Owners (IAOs). Consequently, there is lack of clarity regarding which specific individual is being referred to when the IAO title is mentioned, creating potential confusion regarding responsibilities.

Risks

Data protection / Information Rights

- absence of a formally established governance structure for information governance may result in uninformed decision making, services not being delivered in line with expectations and performance improvement opportunities being missed;
- lack of clarity on the IAO designation leading to uncertainty and increased likelihood that information assets may be governed incorrectly.

Recommendations and Management Action Plan: Information governance structure

Ref.	Recommendation	Agreed Management Action	Owner	Lead Officer	Timeframe
4.1	LPF should consider establishing a regular governance forum which has ultimate responsibility for information governance. Alternatively, the Terms of Reference for existing forums (Risk management Group, ITOCG) could be amended to include sufficiently detailed responsibility for information governance.	LPF will assign responsibility for information governance to a governance forum.	Chief Executive Officer	Chief Risk Officer	31/12/2023

4.2	LPF should create a RACI Matrix covering all information governance stakeholders within LPF. The Council's Data Protection Officer (DPO) should also be included in this Matrix.	LPF's information governance policy currently details roles & responsibilities (including CEC's DPO) but not in a RACI format. This will be updated with a clear RACI matrix.	Chief Executive Officer	Chief Risk Officer	31/12/2023
4.3	LPF should review the 'IAO' title so that system and data owners have different titles, allowing them to be easily distinguished from each other within documentation.	LPF will review the use of IAO title and establish a clear definition and use.	Chief Executive Officer	Head of IT	31/12/2023

Finding 5 – Compliance monitoring

Finding Rating	Medium Priority

Formal compliance monitoring and associated reporting enables an organisation to oversee policy implementation and track various processes, such as data retention, disposal, and security to ensure they are being implemented effectively.

The following issues were noted during our review:

1. Minimal monitoring of policy implementation and compliance, including breaches of policies, is undertaken within LPF. LPF have a compliance monitoring plan with quarterly monitoring performed, but this does not cover numerous information governance policies, including:
    - Data protection
    - Record Retention
    - Data Classification
    - Information rights
2. There is no formal approach within LPF for monitoring of data security, resulting in a lack of assurance over whether data is stored appropriately and in compliance with relevant policies & procedures.

Risks

Data protection / Information Rights

- management may be unaware of non-compliance with agreed data security and storage requirements resulting in errors or malpractice and an increased risk of data breaches being undetected
- lack of clarity regarding what data/information is held, captured, and stored and how long it should be retained for. There will be an associated risk if there are changes to the business.

Recommendations and Management Action Plan: Compliance monitoring

Ref.	Recommendation	Agreed Management Action	Owner	Lead Officer	Timeframe
5.1	LPF should implement centralised compliance monitoring of key information governance policies and procedures within LPF, focusing on ensuring they are being correctly followed and any breaches or non-compliance are identified and reported. This may potentially be performed through the LPF Compliance Monitoring Plan, which does not currently cover information governance within its' scope.	LPF will incorporate information governance measures into existing compliance monitoring plan.	Chief Executive Officer	Chief Risk Officer	31/12/2023

5.2	LPF should implement a formal approach by which to monitor information security, focusing on ensuring that data is stored in-line with security requirements detailed in the relevant policies.	LPF will formalise and document the current approach to monitoring information security e.g., regular IT security checks of information security at third parties.	Chief Executive Officer	Head of IT	31/12/2023

Finding 6 – Information Asset register

Finding Rating	Low Priority

Data assets should map across and be consistent between documentation, providing one consistent version of the enabling data assets to be easily identified. The business application owner should know the type of data an application holds to ensure it is stored securely and retained accordingly, where this information is maintained.

The following issues regarding data assets were identified:

1. The Information Asset Register, Record Retention Schedule, and Third-Party Systems List do not coordinate with the list of data assets and systems within LPF:
    - The Information Asset Register only mentions 10 systems out of the 146 on the Third-Party Systems List, resulting in a lack of clarity of what data various systems store and their data classification.
    - The Information Asset Register, which is high level, only lists 8 information assets and these assets are not clearly identifiable in the record retention schedule.
2. Neither the 'Information Asset Owner Role Guidance' or the 'Data Classification and Handling Standard' clarify who is responsible for ensuring the systems information assets are stored on are themselves appropriately secure.
3. Additionally, LPF do not have a formally documented definition of a data asset. Management advised that this is because LPF is a small company, therefore there is implicit knowledge within the organisation of what the data assets are.

Risks

Data protection / Information Rights

- lack of clarity on information assets and how they map across the various systems, leading to uncertainty as to who holds specific data assets, potentially resulting in data being held in systems that LPF is unaware of.
- business units may not have identified all data protection risks, leading to potential non-compliance and financial penalties and reputational damage.

Recommendations and Management Action Plan: Information Asset register review and update

Ref.	Recommendation	Agreed Management Action	Owner	Lead Officer	Timeframe
6.1	The information asset register should be updated by LPF to be a complete record of all data assets within LPF including whether it resides with a third-party supplier. This register should also include a description on the type of data it holds and its retention period.	LPF will review and update its information asset register, and ensure the asset register, system list, third party supplier list, and retention schedule align.	Chief Executive Officer	Head of IT	31/12/2023
6.2	LPF should create and implement a matrix of dependencies for all systems within LPF. This should capture an overview of the systems, key technical	LPF will update existing registers (which may include third party supplier list, system lists, refreshed information asset	Chief Executive Officer	Head of IT	31/12/2023

	details (version, hosting, etc.), the data within them and where potential risks exist and what data is impacted by these risks.	register) to capture details; and create overview diagram(s) to illustrate the flow of business-critical systems.			

Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed		Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory		Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity		Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity		Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	**N/A**	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
Substantial Assurance	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.

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 – ISMS Document Tracker

Document Title	Status	Relevant for information governance
Third Party Security Assurance Standard	Not created	Y
Business Continuity Test Procedure	Not created	N
Phishing and Penetration Test Schedule	Not created	N
Business Continuity and Recovery Policy	Not created	N
LPF Incident Management Process	Not created	Y
Business Continuity Report Template	Not created	N
Physical and Environmental Security Policy	Not created	N
Risk Assessment and Treatment Methodology	Not created	Y
Controls Exception Log	Not created	N
Password Policy	Not created	Y
Supply Chain Security Standard	Not created	N
Asset Management Standard	Draft	N
Backup Policy	Draft	Y
Bring Your Own Device (BYOD) Policy	Draft	N
Bring Your Own Device (BYOD) Standard	Draft	N
Call Recording Policy	Draft	N
Change Management Policy	Draft	N
Change Management Process Starter	Draft	N
Cryptographic Policy	Draft	Y
Cryptography Standard	Draft	Y
Access Control Procedure	Draft	Y
Identity and Access Management Policy	Draft	Y
Identity and Access Management Standard	Draft	Y
Information Transfer Policy	Draft	Y

Logging and Monitoring Policy	Draft	N
Logging and Monitoring Standard	Draft	N
Information Security Communications Plan	Draft	N
Information Security Context, Requirements and Scope	Draft	N
Information Security Policy	Draft	N
ISMS Monitoring and Measurement	Draft	N
Management of Non-conformance and Corrective Action Policy	Draft	Y
Nonconformity and Corrective Action Log	Draft	N
Network Security Policy	Draft	N
Information Security Risk Management Policy	Draft	Y
Information Security Risk Management Standard	Draft	Y
Vulnerability and Patch Management Policy	Draft	Y
Vulnerability and Patch Management Standard	Draft	Y
Clear Screen and Clear Desk Policy	Live	Y
Security Incident Response Plan	Live	N
Data Classification and Handling Standard (LGSC)	Live	Y
Media Handling Policy	Live	N
IT Operational Risk Log	Live	Y
Acceptable Use Policy	Live	Y
Business Continuity Plan	Live	N
Information Asset Owner Role	Live	Y

Appendix 2 - LPF Internal Audit Management Actions as at 27 April 2023

Ref	Audit	Audit progress	Rec Title	Agreed Management Action	Rating	Status	Est Date	Revised Date	Management Update
1	**LPF2001 Bulk Transfers**	**25%** 4 actions 1 complete 3 outstanding **0 overdue**	Rec 2.1 Maintenance and oversight of a data transfer issues log	A data transfer issues log will be created for data transfer exercises, the log will be reviewed and verified by an independent officer, and a quality assurance process to review a sample of issues implemented.	Medium	**Not yet due**	31/12/2024	n/a	Not yet due
2			2.2 Completion of parallel payroll runs	A formal process will be established to confirm satisfactory completion of the payroll run and to ensure that issues are identifed and recorded in the issue log.	Medium	**Not yet due**	31/12/2024	n/a	
3			2.3 Review of membership communication listing	Processes to support future communications to members re transfer will be formalised in line with the recommendation including reconciliation and review to confirm accuracy.	Medium	**Not yet due**	31/12/2024	n/a	
4	**LPF2003 Technology Model Development**	**86%** 7 actions 6 complete 1 outstanding **1 overdue**	3.1.2: Post-Implementation Activities - User manuals	LPF have produced user manuals and documentation for key/business critical systems and will review the requirements and suitability of the currently available generic documentation for the other third party systems.	Medium	**Overdue (revised date)**	31/12/2022	31/12/2023	The following action has been taken - establishing and refreshing full population of LPF systems, and requesting system owners create system manuals which has identified that a wider review and categorisation of systems by criticality is required, to allow a proportionate approach. E.g. ensuring that critical operational systems have user manuals; while less critical systems (such as information portals) require less comprehensive documentation. Date changed to Dec 2023, to allow this to be co-ordinated with other existing projects (IT and Supplier Management).
5	**LPF2103 Risk Management**	**33%** 3 actions 1 complete 2 outstanding **2 overdue**	1.1 Aligning corporate risks with strategic objectives and risk definitions	Risks will be reviewed with this finding in mind and use it as an opportunity to step back and consider more holistically the risks we capture and how we can effectively manage and cascade granularity of definition with both ongoing operational risk management and reporting/governance. The Risk Management Group (RMG) does seek to do this on an ongoing basis, and to strike the important balance between maintaining and reporting on the right number of risks (omitting gaps) and distracting the focus away from critical risks/strategic analysis with too much detail, but this is a helpful and timely point to review this. We will consider within RMG and report back through the usual channels with any updates arising.	Medium	**Overdue (revised date)**	31/03/2023	31/12/2023	A wider review and uplift of LPF's Risk Management Framework is underway and the observations made by Internal Audit will be integrated into this review.
6			2.1 Maintenance of risk registers	We will look to re-review the sub-group registers (and tie-in with main group register) with these points in mind We will consider within Risk Management Group (RMG) and report back through the usual channels with any updates arising.	Low	**Overdue (revised date)**	31/03/2023	31/12/2023	
7	**LPF2203 Third Party Supplier Management**	**0%** 7 actions 0 complete 7 outstanding **0 overdue**	1.1 Business Case Documentation for critical suppliers	LPF will review records for existing critical suppliers and ensure that business case documentation is stored in correct supplier files. Supplier management policy will be updated to specify where supplier records, such as business case, should be stored.	High	Not yet due	30/09/2023		Not applicable - NEW
8			1.2 and 1.3 Training for Tier 1 supplier owners / due diligence	1.2 LPF will carry out targeted training for Tier 1 supplier owners on monitoring and consider appropriate oversight via RMG reporting. 1.3 As part of action 1.2, targeted training will cover annual due diligence. Supplier framework document review will consider due diligence templates or checklists with set items, tailored to specific tiers.	High	Not yet due	30/06/2023		Not applicable - NEW

Ref	Audit	Audit progress	Rec Title	Agreed Management Action	Rating	Status	Est Date	Revised Date	Management Update
9			1.5 Communication of incident reporting processes to employees	LPF will recommunicate existing incident reporting policies to all employees.	High	Not yet due	30/09/2023		Not applicable - NEW
10			3.1 Review of supplier management framework	LPF will review existing Supplier Management Framework document and all related supporting document (templates, checklists), and update. New supporting documents will be created where necessary . **This will cover Recs 1.4, 2.1, 2.2, 4.1, 4.2, 4.3 and 5.2**	Medium	Not yet due	31/12/2023		Not applicable - NEW
11			5.1 Enhancements to and review of supplier database	LPF will enhance existing supplier database to include additional data fields, including dates of IT assessment and DPIA, and links to full records. A review of the database will be established, with results provided to senior management as part of RMG oversight.	Medium	Not yet due	30/09/2023		Not applicable - NEW
12			5.3 Risk Management Group (RMG) responsibilties	LPF will update RMG responsibilities to include supplier management, and consider how best to incorporate into existing agenda and MI. LPF will add document control to RMG Terms of Ref, including version history and frequency of review.	Medium	Not yet due	30/06/2023		Not applicable - NEW
13			6.1 Supplier management training and awareness	LPF will carry out training and awareness following update of all documents and processes referred to in other actions; and consider how to incorporate into existing annual training plan and onboarding.	Low	Not yet due	31/12/2023		Not applicable - NEW
14	**LPF2202 Information Governance**	**0%** 15 actions 0 complete 15 outstanding **0 overdue**	1.1 - Policy, Standards & Procedures Implementation	LPF will incorporate data strategy, data archiving, and information governance controls into new or existing documentation. RACI will be covered at 4.2.	High	Not yet due	31/12/2023		Not applicable - NEW
15			1.2 - Roadmap for remaining policies/artifacts	LPF's existing Information Security project is being rebased, and the new project will specify plans for delivery of remaining policies / artifacts - including dates and owners.	High	Not yet due	30/06/2023		Not applicable - NEW
16			1.3 - Centralised management of policies and procedures	LPF will implement a group-wide approach for centralised management of policies and procedures.	High	Not yet due	31/12/2023		Not applicable - NEW

Ref	Audit	Audit progress	Rec Title	Agreed Management Action	Rating	Status	Est Date	Revised Date	Management Update
17			2.1 - Documented Access Management Approach	LPF’s existing approach to Joiner Movers Leavers will be documented. Documentation of access rights and processes will be co-ordinated across JML and new Change & Access policies and procedures.	High	Not yet due	31/12/2023		Not applicable - NEW
18			2.2 - Access Management for external parties	LPF's draft Change Management and Identity and Access policies will be updated to cover granting, management, and removal of users. Measures re external party access will also be documented.	High	Not yet due	31/12/2023		Not applicable - NEW
19			3.1 - Review of existing documents and data classification	As part of LPF’s planned data classification implementation, existing documents will be reviewed to ensure they reference, and align with, data classification approach.	Medium	Not yet due	31/12/2023		Not applicable - NEW
20			3.2 - Update of Data Classification policy to include special category data and define data asset	LPF will update data classification policy to specify approach to special category data, will define ‘data asset’ and align policies to this definition.	Medium	Not yet due	31/12/2023		Not applicable - NEW
21			3.3 - Retention schedule guidance	LPF will: 1. create documented guidance on how retention periods are determined, including how CEC’s requirements are tailored to LPF. 2. update retention schedule to align with LPF's data assets	Medium	Not yet due	31/12/2023		Not applicable - NEW
22			4.1 - Information governance forum	LPF will assign responsibility for information governance to a governance forum.	Medium	Not yet due	31/12/2023		Not applicable - NEW
23			4.2 - Information governance roles and responsibilities (RACI)	LPF's information governance policy currently details roles & responsibilities (including CEC's DPO) but not in a RACI format. This will be updated with a clear RACI matrix.	Medium	Not yet due	31/12/2023		Not applicable - NEW
24			4.3 - Review of IAO title	LPF will review the use of IAO title and establish a clear definition and use.	Medium	Not yet due	31/12/2023		Not applicable - NEW
25			5.1 - Compliance Monitoring	LPF will incorporate information governance measures into existing compliance monitoring plan.	Medium	Not yet due	31/12/2023		Not applicable - NEW

Ref	Audit	Audit progress	Rec Title	Agreed Management Action	Rating	Status	Est Date	Revised Date	Management Update
26			5.2 - Formalising information security monitoring approach	LPF will formalise and document the current approach to monitoring information security e.g., regular IT security checks of information security at third parties.	Medium	Not yet due	31/12/2023		Not applicable - NEW
27			6.1 - Information Asset register review and update	LPF will review and update its information asset register, and ensure the asset register, system list, third party supplier list, and retention schedule align.	Low	Not yet due	31/12/2023		Not applicable - NEW
28			6.2 - Update of registers to illustrate system dependencies	LPF will update existing registers (which may include third party supplier list, system lists, refreshed information asset register) to capture details; and create overview diagram(s) to illustrate the flow of business-critical systems.	Low	Not yet due	31/12/2023		Not applicable - NEW

Pensions Audit Sub Committee

2.00pm, Monday, 19 June 2023

Risk & Compliance Update

Item number 6.5

1. Recommendations

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

1.1 note the LPF group's Risk Register and Quarterly Risk Overview, and raise any relevant points arising from the review with the Pensions Committee on 21 June; and

1.2 note the ongoing strategy and development around the group's risk management framework.

Kerry Thirkell
Chief Risk Officer, Lothian Pension Fund

Contact: Kerry Thirkell, Chief Risk Officer, Lothian Pension Fund

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

Risk & Compliance Update

2. Executive Summary

2.1 This paper provides an overview of monitoring and assurance undertaken in LPF since the last meeting, noting any material observations or exceptions.

2.2 This paper also provides a summary of the work to enhance current risk management arrangements.

3. Risk Management Arrangements

3.1 The programme of work on the Risk Management Framework ('RMF') is underway. Key developments and updates since the last committee meeting are:

- Risk & Compliance mandate document created
- LPF risk language/taxonomy developed and agreed
- LPF risk evaluation methodology simplified
- All staff RMF update training completed

3.2 As noted previously, a key part of the operational plan will be an evaluation of the effectiveness of changes as they are introduced and embedded, through observation, feedback and testing. Willingness and flexibility to adapt, change, modify or remove aspects is critical to the successful implementation and embedding of the new risk management framework and any changes will need business support and engagement. Training and awareness will underpin the programme and ensure that staff understand their role in the framework.

3.3 Recruitment has been underway for a new hire in the R&C team with subject matter expertise in investment compliance and front office monitoring and oversight. An offer has been accepted by the preferred candidate with anticipated start date towards the end of the summer.

4. Monitoring & Assurance Summary

Themed Reviews

Investment Services Review

4.1 As reported previously, the themed review on Investment Services raised several observations around the following themes:

- Governance & Conflicts
- Client Management (and presentation of 'advice')
- Documentation & Record-keeping
- Risk Management Framework
- Middle Office
- Supplier Management

4.2 Subsequently the Investment Governance Improvement Plan ('IGIP') has since been established to remediate the gaps and weaknesses identified from the review. This project is expected to run for approximately 9 months, and draws on the expertise from the same external consultants as the original review, to facilitate delivery of agreed enhancements. Notwithstanding the effort provided by the external consultants, proper and appropriate engagement with LPF resources is critical to the success of this project.

Financial Crime Review

4.3 This review looked at the adequacy and effectiveness of arrangements to manage the risks of financial crime across the LPF group. Specifically with regard to LPFI, the review helped facilitate the production of the annual MLRO report to the LPFI Board, which is a FCA requirement. It concluded that LPFI is compliant with money laundering regulations and FCA rules, with some enhancements to meet best practice – such as a more detailed money laundering risk assessment, and more frequent sanctions screening.

4.4 LPF group activities require a number of enhancements to meet best practice, such as a business wide risk assessment of the LPF activities which may be used to launder money or provide resources to sanctions targets – such as property or private market investments.

4.5 Group wide observations were categorised into six findings, and will be addressed as part of LPF's issues management process:
- limited financial crime or AML risk assessments (now completed)
- inconsistent documentation of procedures
- inconsistent issue or completion of mandatory training
- record keeping on the regulated status of private market fund managers
- reliance on third parties carrying out due diligence to be reviewed and clarified
- lack of robust or repeatable procedures on sanctions and asset freezes

BDO Compliance Monitoring Programme (CMP)

4.6 All testing scheduled for the period 1 January to 31 March 2023 has been completed. A total of 6 new issues were identified and recorded, and are noted below.

Findings & Recommendations

4.7 The following enhancements were recommended by BDO:

- improve documentation of internal controls and records for client mandates
- improve record keeping and procedures on use of insider lists
- ensure LPFI organisational chart is accurate and up-to-date
- ensure intra-group services between LPF, LPFI, and LPFE are documented in appropriate detail
- ensure regulatory disclaimers are contained in emails to clients
- produce MLRO report as soon as possible

Non-FCA Compliance Monitoring Programme ('CMP')

4.8 20 tests were undertaken, with 18 of these assessed as 'fully compliant'. The remaining 2 tests were not fully compliant primarily due to documentation not being up to date, rather than any operational failures.

Internal Audit

4.9 Since the last meeting, CEC Internal Audit reviews have completed on Third Party Supplier Management and Information Governance. Whilst neither LPFI or LPFE have a formal dedicated third line of defence, the scope of these reviews was sufficiently broad to ensure applicability across the group, acknowledging the common systems and controls that sit across the LPF group. The audit regarding the Adequacy of Technology Security Assurance Arrangements has been delayed until Q3 2023 due to the unforeseen resourcing challenges within the LPF IT team during Q4 2022 and Q1 2023. This has been agreed with CEC Internal Audit to allow the various initiatives and activities already acknowledged and in train, to complete.

4.9.1 **Third Party Supplier Management** - The objective of this review was to assess LPF's current third party supplier management arrangements against industry good practices. The review recognised that LPF's supplier management framework has only recently been implemented, and acknowledged that such frameworks take time to embed. Nevertheless, areas identified to strengthen and improve are:

- Consistency of supplier management processes for critical suppliers
- Contract exit planning
- Supplier management framework to cover end-to-end third party lifecycle
- Supplier onboarding processes to be clearer and centralised
- Training and awareness for supplier management
- Ongoing monitoring and oversight, with clear responsibility for oversight

4.9.2 **Information Governance** - The purpose of this review was to assess the adequacy of design effectiveness of the key controls over data strategy and information governance, many of which were newly implemented or refreshed following the transfer to LPF's new IT provider, Cased Dimensions, in 2021. Six findings were noted to further enhance the information governance framework:
Clear plan to implement remaining policy, standards and procedures

- Data access management
- Use data classifications in accordance with GDPR guidelines
- Establish information governance oversight and governance structure Compliance monitoring of information governance matters
- Various registers to be co-ordinated and aligned – including Information
- Asset Register, Records Retention, and systems and suppliers lists

4.10 As reported in February, we have agreed with CEC Internal Audit a programme of reviews to be undertaken in 2023/24 that is also relevant to LPFI and LPFE. The proposal was approved by the Pension Committee when they met in March and the programme is now underway, having agreed provisional timings with CEC Internal Audit:

People Processes

4.11 (May – July): to provide assurance on the people processes supporting the employee lifecycle (terms of reference expected to be agreed shortly)

Business Continuity & Incident Response

4.12 (Aug – Oct): review of the adequacy and operating effectiveness of key controls and processes established to provide assurance that LPF maintains business continuity plans to ensure they maintain services during an emergency or extended incident

Senior Managers & Certification Regime

4.13 (Aug – Oct): to provide assurance of compliance with the key elements and prescribed responsibilities of the FCA SM&CR

Information Security Arrangements

4.14 (renamed Adequacy of Technology Security Assurance Arrangements) (Sep – Dec): review the design of the suite of IT policies, standards and procedures that have been developed during 2022 to prevent, respond and manage information security across LPF, as well as ensuring they are aligned to the IT strategy due to be formalised during 2023

Project Forth

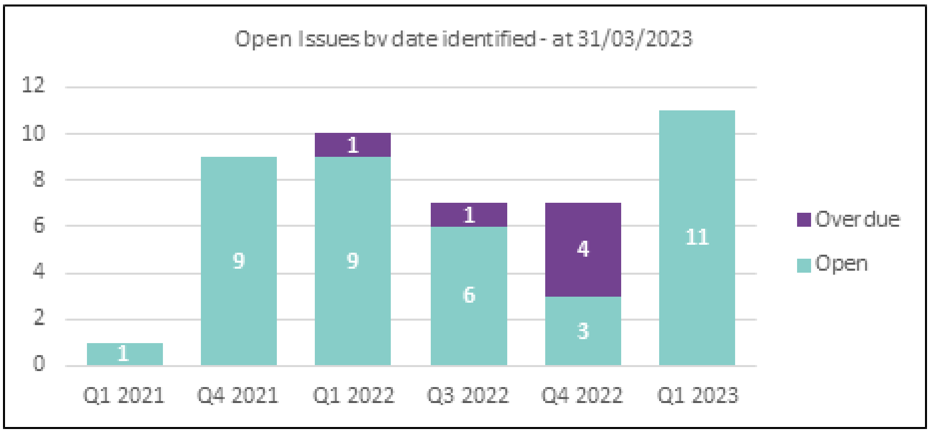
4.15 (TBC): audit to be decided. Suggested areas include project delivery or associated elements such as resulting Transfer of Undertakings - Protection of Employment (TUPE) or asset transfer.

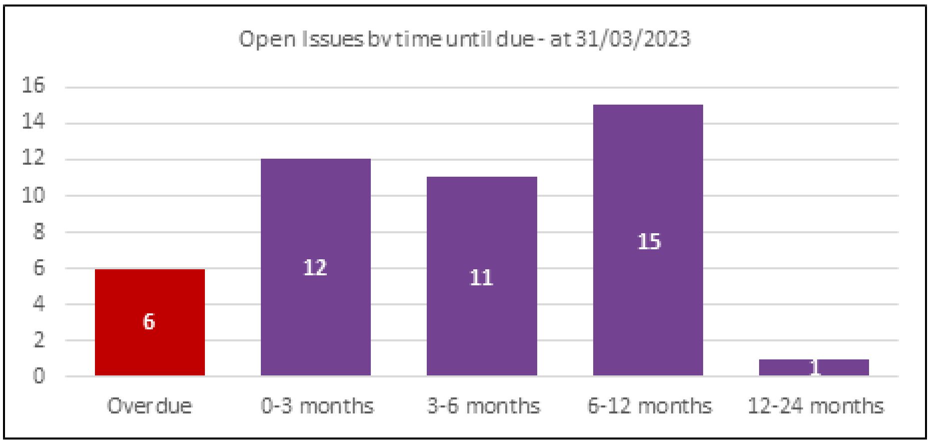
Issues & Incidents

4.16 Improvements continue to be made to the processes, governance and reporting regarding LPF Issues and incidents. A summary status of issues and incidents from Q1 2023 is noted below.

Issues

4.17 During Q1, 15 issues were closed and 12 new issues were raised. These issues comprise findings from internal audit and 2LoD (including BDO CMP) monitoring and assurance work, as well as any other self-identified items, and the 12 added in the period, include 6 issues arising from the Third Party Supplier Management internal audit.



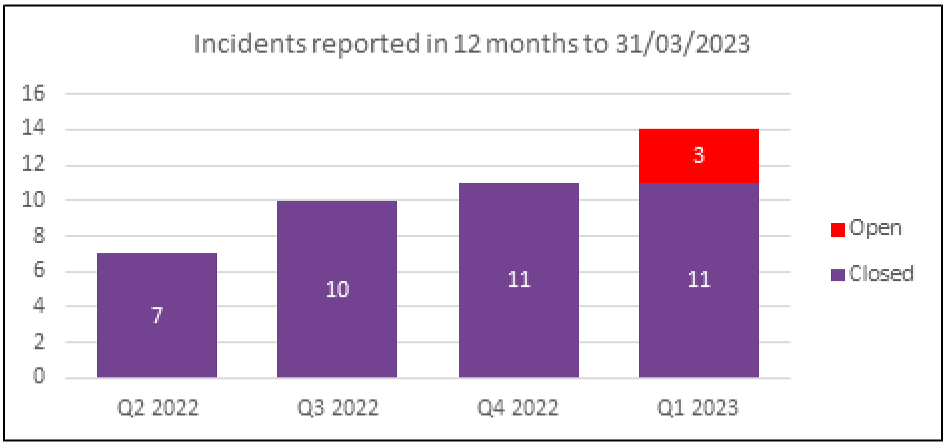


4.18 Since end Q1, a further 17 issues have been added, predominantly from the Investment Services Review, the Financial Crime Review, and the internal audit on Information Governance. At the time of writing, there are currently 57 open issues, 3 of which are overdue. 10 issues have a due date by the end of June 2023 and the

Risk & Compliance team continue to actively engage with issue stakeholders to ensure agreed actions are being taken.

Incidents

4.19 Fourteen incidents were raised during Q1 2023, three of which were classified as non-reportable data breaches. None were classified as FCA regulatory breaches. Required actions to remediate eleven of these incidents were completed during Q1, and the incidents subsequently closed. Three remain open while actions are underway.



4.20 Following the end of Q1, 10 further incidents have been raised.

4.21 The quality of information being recorded continues to be enhanced making analysis of any themes or trends more effective. Insufficient or unclear processes within the Charles River system has been observed to cause or contribute to several incidents – including manual workaround when trade authorisation rules did not function as expected; a late major shareholding notification for LPF; and an unexpected early trade settlement leading to an overdrawn account charge for LPFI clients. The work included in the IGIP project as well as the new R&C hire are both expected to introduce improvements to the use and functionality of Charles River.

4.22 Further information on issues and incidents is available on request.

FCA Regulatory Compliance – ICARA

4.23 LPFI is required to hold adequate financial resources (also referred to as regulatory capital or capital adequacy) and to establish systems and controls to manage potential harms. The FCA rules on this were previously known as the Internal Capital Adequacy Assessment Process (ICAAP), and in 2022 were replaced under the Investment Firms Prudential Regime (IFPR) by the Internal Capital Adequacy and Risk Assessment (ICARA). These systems and controls must include a process to assess and allocate additional capital where a residual, material risk remains.

4.24 Following LPFI's successful application to the FCA during 2022 to remove the private restriction on assets under management (AuM), at £1.25billion, there has been a steady increase in AuM. When the value of AuM exceeds this figure some additional regulatory reporting and methodology is triggered and is required to be undertaken due to LPFI's FCA category within the ICARA framework changing from a Small and Non-Interconnected firm (SNI) to a 'non-SNI' firm.

4.25 The increase in AuM for LPFI is expected to cross the FCA SNI/non-SNI reporting threshold in June. Whilst the Finance team have been undertaking some capital modelling on the anticipated AuM, BDO were engaged to provide an analysis of the FCA IFPR requirements for LPFI's transition from SNI to non-SNI. This analysis has been reviewed and a series of actions and timeline identified, with relevant stakeholders aware of any required changes to processes and reporting.

5. Financial impact

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

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 Except as otherwise stated in the report itself, 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 – Quarterly Risk Summary as at 2 May 2023

Appendix 2 – Government Actuary Department Scottish LGPS Section 13 report as at 21 March 2020

LOTHIAN
PENSION FUND

Quarterly Risk Overview

LOTHIAN PENSION FUND

Executive Summary

This document provides a summary of the assessment of the LPF group's risks as agreed by the Risk Management Group (RMG) on 02 May 2023 . The RMG reviews the LPF group risk register on at least a quarterly basis.

Risk Register as at 02 May 2023

Total risks	High	Moderate	Low
39	1	11	27

See Appendix 2 for full list of risks.

Changes since risk register 07 Feb 2023:

New	Closed	Improved	Deteriorated	Unchanged
0	0	2	1	36

Summary of changes:

- New – no new risks added.
- Closed – no risks removed.
- Improved – **Project and Change** & **Pension Payments** risk scores improved.
- Deteriorated – **Supplier and third-party systems** risk score worsened from Low to Moderate.

Further detail is provided on the following pages.

Risk Scoring Changes

No new risks added to, or existing risks removed from register.

Score changes to existing risks since last RMG meeting on 07 Feb 2023:

Risk	Score	Movement	Update
35. Supplier and third-party systems Inadequate, or failure of, supplier and other third-party systems (including IT and Data security).	30	Deteriorated	Score deteriorated from 25 to 30, to reflect recommendations in supplier management audit. Internal audit of supplier management was completed in March 2023, with conclusion that significant improvement to the effectiveness of LPF's processes is needed to ensure sufficient governance and oversight. An action plan has been agreed to address findings and score will remain elevated while these actions are underway.
15. Late payment of pension Failure to pay pensions as they fall due including as a result of administration failure	21	Improved	Score improved from 21 to 14. Contingency payment process improved as part of business continuity improvements / testing.
38. Project and change activities Risk that project and change activities are not effectively managed, leading to delays or failure to deliver, change fatigue, negative impact on daily operations	24	Improved	Score improved from 32 to 24, moderate to low, following pause of Project Forth. Probability remains higher due to number of other project and change activities. Current mitigating actions are: project & change control process being introduced in 2023.

Appendix 1 – Risk Scoring & Distribution Chart

Risk scoring:

	Impact	Probability
1	No discernible effect	Virtually impossible
2	Little discernible effect	Extremely unlikely
3	Some effect noticeable	Remotely possible
4	Some effect on service provision	May occur
5	Noticeable effect on service provision	Fairly likely to occur
6	Some disruption of service	More likely to occur than not
7	Significant service disruption	Likely to happen
8	Material disruption to services	Probably will happen
9	Major service disruption	Almost certainly will happen
10	Catastrophic	Already happening

RAG (Red Amber Green) status:

	Risk Status
Red	High: resolve urgently where possible (probability and impact total 35 and above)
Amber	Moderate: resolve where possible (probability and impact total 25 to 34)
Green	Low: monitor (probability and impact total 24 and below)

Risk Distribution – at 02 May 2023:

Probability \ Impact	1	2	3	4	5	6	7	8	9	10
10										
9										
8										
7				1	1					
6				1	3					
5			1	1	3	2				
4				5	9	4	1	1		
3			1	2	1		1			
2							1			
1										

Appendix 2 – Risk Register

One page overview of risk register & RAG status at 02 May 2023.

Code	Risk name	RAG & Score
1	Investment Performance	
2	Adverse Movement - pressure on employer contributions	
3	Failure of an employer to pay contributions	
4	Recruitment & retention	
5	Fraud by LPF staff or relating to members	
6	Staff competence	
7	IT systems	
8	Culture & engagement	
9	Pension Committee decisions	
10	Pension Board effectiveness	
11	Business continuity	
12	Data protection	
13	Responsible Investment	
14	Incorrect pension payments	
15	Late payment of pension	
16	Market abuse	
17	Investment operations	
18	Disclosure of confidential information	
19	Material breach of contract	
20	Regulatory breach	
21	Information Rights	
22	Member communications	
23	Acting beyond proper authority/delegations	
24	Inappropriate use of pension fund monies	
25	Procurement/framework breach	
26	Procurement process	
27	Group structure and governance	
28	Claim or liability arising from shared services	
29	Employer systems access	
30	Incorrect member data	
31	Inadequate contractual protection	
32	Over reliance on single core service provider	
33	Staff Resource	
34	Health and safety	
35	Supplier and third-party systems	
36	Cybersecurity	
37	Climate change	
38	Project and change activities	
39	Key Person	

Appendix 3 – Three-year risk trends

Ref	Risk name	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
1	Investment Performance	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
2	Adverse Movement - pressure on employer contributions	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
3	Failure of an employer to pay contributions	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
4	Recruitment & retention	Green	Green	Green	Amber	Amber	Green	Amber	Amber	Amber	Amber	Amber	Amber
5	Fraud by LPF staff or relating to members	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
6	Staff competence	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
7	IT systems	Red	Red	Red	Red	Amber	Amber	Amber	Green	Green	Green	Green	Green
8	Culture & engagement		Amber	Amber	Amber	Amber	Amber	Green	Green	Green	Green	Green	Green
9	Pension Committee decisions	Amber	Green	Amber	Green	Green	Amber	Green	Amber	Amber	Green	Green	Green
10	Pension Board effectiveness	Amber	Green	Amber	Green	Green	Green	Green	Green	Green	Green	Green	Green
11	Business continuity	Red	Red	Red	Red	Amber	Amber	Amber	Green	Green	Green	Green	Green
12	Data protection	Red	Red	Red	Red	Amber	Amber	Amber	Amber	Green	Green	Green	Green
13	Responsible Investment					Green	Green	Green	Green	Green	Green	Green	Green
14	Incorrect pension payments	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
15	Late payment of pension	Amber	Amber	Red	Amber	Amber	Amber	Green	Green	Green	Green	Green	Green
16	Market abuse	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
17	Investment operations	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
18	Disclosure of confidential information	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
19	Material breach of contract	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
20	Regulatory breach	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Red	Red
21	Information Rights	Green	Green	Green	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Green
22	Member communications	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
23	Acting beyond proper authority/delegations	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
24	Inappropriate use of pension fund monies	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
25	Procurement/framework breach	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
26	Procurement process	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
27	Group structure and governance	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Red	Amber	Amber	Amber	Amber
28	Claim or liability arising from shared services	Green	Amber	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
29	Employer systems access	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
30	Incorrect member data	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
31	Inadequate contractual protection	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
32	Over reliance on single core service provider	Amber	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
33	Staff Resource	Amber	Amber	Amber	Amber	Amber	Red	Red	Amber	Amber	Amber	Amber	Amber
34	Health and safety	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
35	Supplier and third-party systems	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
36	Cybersecurity	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
37	Climate change					Green	Green	Green	Green	Green	Green	Green	Green
38	Project and change activities							Amber	Amber	Amber	Amber	Amber	Green
	Power outages										Green		
39	Key Person											Amber	Amber

DRAFT FOR INCLUSION IN REPORT TO PENSIONS COMMITTEE, JUNE 2023 – COMPLIANCE and RISK UPDATE:

GAD's Scottish LGPS Section 13 report as at 31 March 2020

The Public Service Pensions Act 2013, Section 13, placed a requirement was on Scottish Ministers to carry out an independent review of every LGPS local valuation to ensure compliance with four criteria:

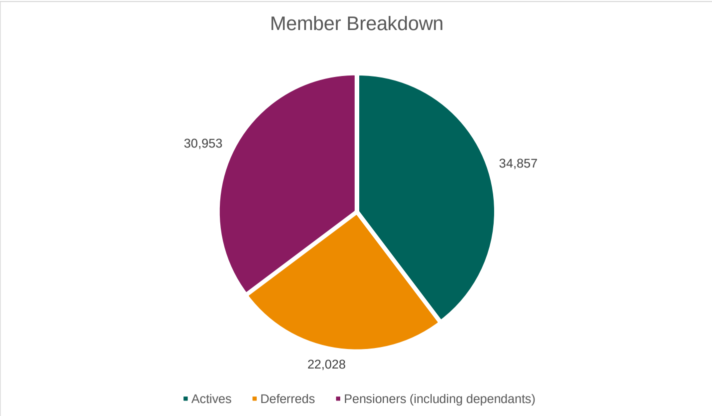
- **Compliance** with the Regulations
- A valuation that is not **inconsistent** with others
- A funding plan that ensures **solvency** of the fund
- A **long-term cost-efficient** funding plan

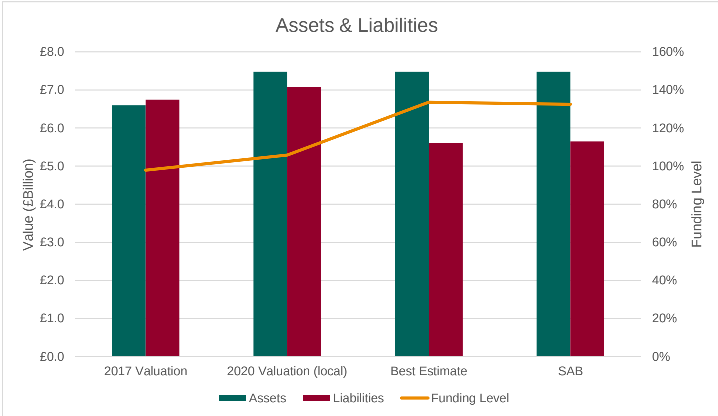
The Government Actuary's Department (GAD) has completed and published its Section 13 report on the 2020 actuarial valuations for the LGPS in Scotland**.** Importantly, neither Lothian Pension Fund, nor Scottish Homes Pension Fund, has received any amber or red flags. The GAD Section 13 report and its related appendices are included at Appendix 1 [tbc], together with, at Appendix 2, the detailed dashboard analysis for solvency and long-term cost efficiency analysis, specific to Lothian Pension Fund.

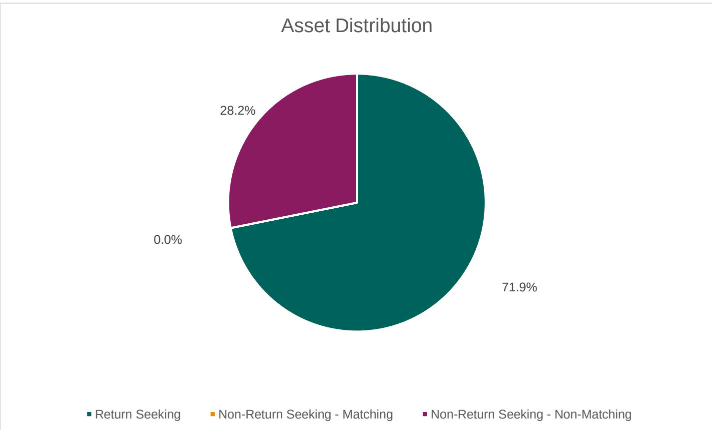
Appendices:

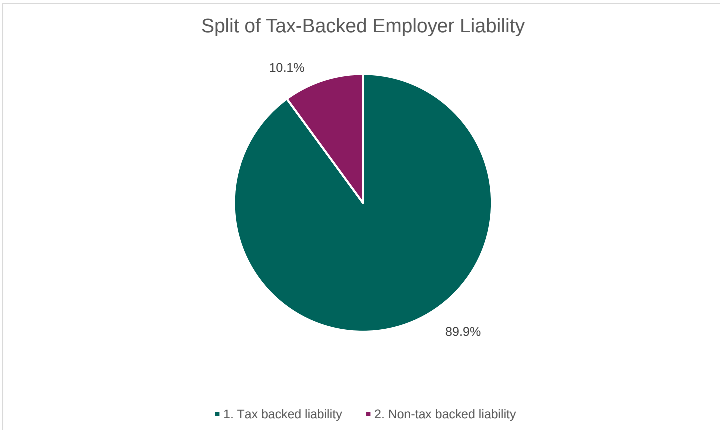
1. Local Government Pension Scheme (Scotland) Section 13 report as at 31 March 2020 - GOV.UK (www.gov.uk)
2. GAD's solvency and long-term cost efficiency analysis for Lothian Pension Fund, Section 13 report as at 31 March 2020.

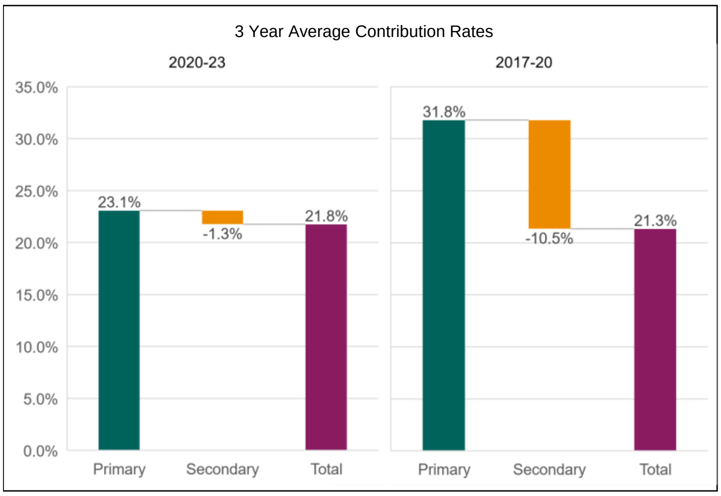
Lothian Pension Fund

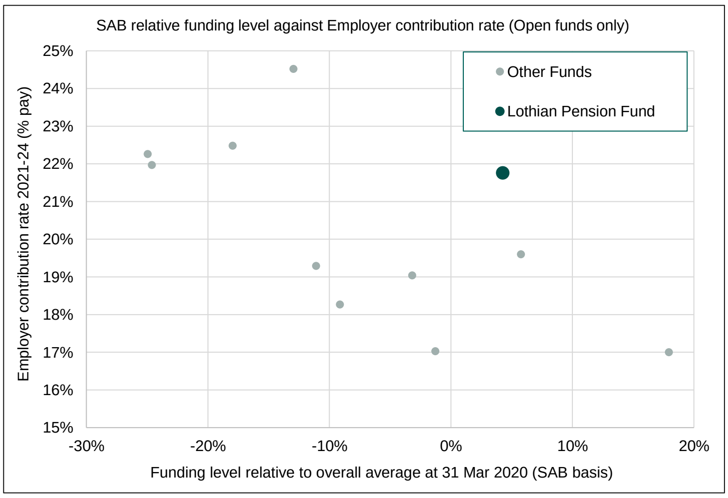












At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes the standards we apply.

Lothian Pension Fund

Solvency Breakdown

Asset Shock

Assets are divided into the following classes:
Return seeking - Equity, Property, Infrastructure debt & other return seeking assets
Non-return seeking - All other assets
Return seeking assets are stressed by reducing them by 15%

New deficit
= (*Pre−stress asset value − Post−stress asset value*)

This deficit is then spread over 20 years of annual payments, and compared to the fund's pensionable payroll

	£m
Pre-stress asset value	£7,479.1
Return seeking assets	£5,373.7
Non-return seeking assets	£2,105.4
Post-stress asset value	£6,673.1
Return seeking	£4,567.7
Non-return seeking	£2,105.4
Reduction in asset value	£806.1
Equates to an annual amount (spread over 20 years)	£43.7
Total pensionable payroll	£788.5
Reduction to surplus as a percentage of pensionable payroll	5.5%
Deficit percentage of pensionable payroll (allowing for post-asset shock surplus)	Surplus

Employer Default Shock

Determine funding level on GAD's best estimate basis
If the fund is in deficit, non-tax backed deficits are allocated to tax-backed
The non-tax backed deficit is spread over 20 years and compared to the fund's pensionable payroll

	£m
Deficit on best estimate basis	£0.0
Proportion of deficit allocated to non-tax raising authorities	£0.0
Annual deficit payment (spread over 20 years)	£0.0
Deficit percentage of pensionable payroll	Surplus

Fund Open/Closed	Open
SAB Funding Level	132.4%

Long Term Cost Efficiency

Deficit Recovery Period

Implied deficit recovery period calculated on a standardised market consistent basis

Recovery period (years)	Surplus
Ranking of fund (out of 11 open funds)	Not Applicable

Required Return

Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis

Required return under best estimate basis	2.3%
Ranking of fund (out of 11 open funds)	1

Surplus Retention

A comparison of the average actual employer contribution rate with the contribution rate required to meet the cost of accruing future benefits (including allowance for surplus) calculated on the standardised market consistent basis

Actual contribution rate paid less SCR on best estimate basis (allowing for surplus)	4.5%

Return Scope

Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

Expected return	4.2%
Required return	2.3%
Difference	1.9%
Ranking of fund (out of 11 open funds)	9

Deficit Recovery Plan

Consideration of how the deficit recovery plan has changed compared to 2017 valuation

Valuation	*2017*	*2020*
Deficit Recovery End Point	2037	Surplus
2018-21 Average Contribution Rate		21.3%
2021-24 Average Contribution Rate		21.8%
Increase in contributions		
Difference in Average Contribution Rate between 2018-21 and 2021-24		0.4%
Increase in deficit recovery end point (years)		Surplus

Minor inconsistencies in totals may occur due to rounding.

Government Actuary's Department

This document is intended only for discussions between GAD, SPPA, the relevant Local Authority and their actuary

This summary will be included as appendix to the full Section 13 report

Lothian Pension Fund | **Dashboard summary**

Past service funding position - local funding basis

Funding level (assets/liabilities)	105.8%
Funding level (change since previous valuation)	7.9%
Asset value used at valuation	£7,479,118,788
Value of liabilities	£7,071,426,818
Surplus (deficit)	£407,691,971
Discount rate(s)	3.0%
Assumed pension increases (CPI)	2.0%
Method of derivation of discount rate, plus any changes from last valuation	There is a 75% likelihood that the Fund's investments will return at least 3.0% over the next 20 years based on a stochastic asset projection.
Assumed Life expectancies for pensioners at age 65	
Average life expectancy for current pensioners - men currently age 65	20.5 years
Average life expectancy for current pensioners - women currently age 65	23.3 years
Average life expectancy for future pensioners - men currently age 45	22.0 years
Average life expectancy for future pensioners - women currently age 45	25.2 years

Past service funding position - SAB basis (for comparison purposes only)

Market value of assets	£7,479,118,788
Value of liabilities	£5,647,440,430
Funding Level on SAB basis (assets/liabilities)	132%
Funding level on SAB basis (change since last valuation)	n/a

Contribution rates payable

Primary contribution rate:	23.1%		
Secondary contribution rate (cash amounts each year in line with CIPFA guidance):			
Secondary contributions 2021/22	-£11,262,000		
Secondary contributions 2022/23	-£11,378,000		
Secondary contributions 2023/24	-£11,530,000		
Giving total expected contributions:			
Total expected contributions 2021/22 (£ figure based on assumed payroll)	£179,980,296	Based on assumed payroll of	£827,888,729
Total expected contributions 2022/23 (£ figure based on assumed payroll)	£184,577,231	Based on assumed payroll of	£848,291,045
Total expected contributions 2023/24 (£ figure based on assumed payroll)	£189,254,311	Based on assumed payroll of	£869,196,152
Average employee contribution rate (%of pay)	6.2%		
Employee contribution rate (£ figure based on assumed payroll)	£51,329,101	Based on assumed payroll of	£827,888,729

Additional information

Percentage of liabilities relating to employers with deficit recovery periods longer than 20 years	0.0%
Percentage of total liabilities that are in respect of employers participating in LGPS (S) who have no local or national taxpayer backing, nor a full guarantee, or other pass-through arrangement, with a body with such backing.	10.1%

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

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