

City of Edinburgh Council

10:00am, Tuesday 30 June 2020

Lothian Pension Fund Unaudited Annual Report (and Financial Statements) 2020 – referral from the Pensions Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

The Council is asked to note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund.

Laurence Rockey

Head of Strategy and Communications

Contact: Lesley Birrell, Committee Services

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Referral Report

Lothian Pension Fund Unaudited Annual Report (and Financial Statements) 2020

2. Terms of Referral

- 2.1 On 24 June 2020, the Pensions Committee considered a report setting out the Unaudited Annual Report and Financial Statements for 2020 for the Lothian Pension Fund and Scottish Homes Pension Fund.
- 2.2 In the context of sizeable falls in both the global and UK equity markets over the financial year, the accounts showed that the Lothian Pension Fund (Group) net asset valuation had decreased from £7,817m to £7,479m, a reduction of 4.3%. Given its mature membership profile and gilts investment strategy, the Scottish Homes Pension Fund had remained static at £166m.
- 2.2 The Pensions Committee agreed:
- 2.2.1 To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2.2.2 To refer the unaudited Annual Report and Financial Statements to the Council for noting.

3. Background Reading/ External References

Minute of the Pensions Committee of 24 June 2020.

4. Appendices

Appendix 1 – report by the Chief Finance Officer, Lothian Pension Fund



Pensions Committee

2.00pm, Wednesday, 24 June 2020

LPF Unaudited Annual Report (and Financial Statements) 2020

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund; and
- 1.2 refer this report for the purpose of noting to the full Council, at its meeting on 30 June 2020.

John Burns

Chief Finance Officer, Lothian Pension Fund

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LPF Unaudited Annual Report (and Financial Statements) 2020

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 2020 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2.2 A copy of the unaudited Pension Funds' Annual Report 2020 is attached as Appendix 1.
- 2.3 In the context of sizeable falls in both the global and UK equity markets over the financial year, the Accounts show that the Lothian Pension Fund (Group) net asset valuation has decreased from £7,817m to £7,479m, a reduction of 4.3%. Given its mature membership profile and gilts investment strategy, the Scottish Homes Pension Fund has remained static at £166m.

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 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". The Head of Finance serves as the Section 95 Officer for all of the City of Edinburgh Council's accounting arrangements, including those of the Pension Funds, however, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund.
- 3.2 The Act stipulates that unaudited financial statements must be presented to the Council and the Controller of Audit within three months of the financial year end, that is 30 June. It is within the Pensions Committee's remit to consider the unaudited Annual Report for the pension funds. Reflecting Audit Scotland guidance, the Annual Report should be referred to full Council for the purpose of noting. The next such Council meeting is on 30 June 2020.

Financial statements 2019/20 – timetable; emergency dispensation by the Scottish Government

- 3.3 The Scottish Government considers that the provisions made in *The Coronavirus (Scotland) Act 2020* are sufficient to allow each local authority to determine its own revised timetable for Annual Accounts. The Act sets out that a "Scottish public authority must comply with the duty as soon as reasonably practicable". In that

regard Scottish Ministers consider that, at this time, it seems reasonable that a local authority publishes its Annual Accounts no later than 30 November 2020, and we are seeking local authority agreement on that. If the situation changes this date can be revisited as events unfold.

- 3.4 Lothian Pension Fund has not sought to utilise the provisions made in *The Coronavirus (Scotland) Act 2020* to revise the timetable for Annual Accounts.

Accounting and other guidance

- 3.5 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) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;
- (b) 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;
- (c) a report of the arrangements made during the year for the administration of each of those funds;
- (d) 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;
- (e) the current version of the statement under regulation 53 (governance compliance statement);
- (f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;
- (g) 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 in accordance with regulation 57 (pension administration strategy); and
 - (ii) such other matters arising from a pension administration strategy as it considers appropriate;

- (h) the current version of the statement referred to in regulation 56 (funding strategy statement);
- (i) 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);
- (j) the current version of the statement under regulation 59 (statements of policy concerning communications with members and Scheme employers); and
- (k) any other material which the authority considers appropriate “

- 3.6 Local authorities are required to account for pension funds in accordance with the applicable 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. 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”.
- 3.7 In March 2016, CIPFA revised and updated this guidance. Whilst the underlying principle of transparency of investment cost remained unchanged, a degree of relaxation to full cost disclosure was introduced. Specifically, for complex “Fund of Fund” structures, “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the (Pension) Fund Account.....If pension funds wish to provide information about the total cost of Fund of Fund investments, this should be included as part of the Investments section in the Annual Report”.
- 3.8 The financial statements of Lothian Pension Fund and Scottish Homes Pension Fund continue to include full transparency of all investment management fees.
- 3.9 With the, FCA regulated, investment services company, LPFI Limited, commencing trading on 28 February 2017, consolidated financial statements have again been prepared for Lothian Pension Fund for the year ended 31 March 2020. 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 2020

- 4.1 A copy of the unaudited Annual Report (and Financial Statements) for the year to 31 March 2020 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 In the context of sizeable falls in both the global and UK equity markets over the financial year, the Accounts show that the Lothian Pension Fund (Group) net asset valuation has decreased from £7,817m to £7,479m, a reduction of 4.3%. Given its mature membership profile and gilts investment strategy, the Scottish Homes Pension Fund has remained static at £166m.

Contingent liabilities

4.4 Age Discrimination in Public Service Pension Schemes

On 13 May 2020, the Scottish Public Pensions Agency (SPPA) advised that:

“In December 2018, the Court of Appeal found that the transitional protections introduced to the judicial and firefighters' schemes during the reform of public service pensions in 2015 discriminated on grounds of age. The UK Government sought permission to appeal this decision but this was not granted, and on 15 July 2019 the UK Government issued a written ministerial statement to confirm that as transitional protection was provided in all public service schemes, the ruling had implications for all those schemes, including the Scottish Local Government Pension Scheme (SLGPS). Details of the Court of Appeal ruling, hereafter referred to as *McCloud*, are available..... Whilst initial proposals to address the specific discrimination in the SLGPS have been shared with the scheme advisory board, there remains uncertainty around the timing and changes needed in light of *McCloud*. ”The Fund's IAS26 reporting from its actuary, as disclosed in Note 23, takes into account the appeal decision. There remains significant uncertainty over the remedy to be applied and associated costs to Scottish LGPS funds.

Employer Cost Cap considerations

In the same communication of 13 May 2020, SPPA stated:

“The reforms introduced to public service pensions from 1 April 2015 (or a year earlier in the case of the local government scheme in England and Wales) also included a new cost control mechanism, known as the employer cost cap. The purpose of the mechanism was to introduce a way of sharing pension cost increases

and savings between the employer (ultimately often the taxpayer) and scheme members..... The first cost cap valuation for LGPS Scotland was due to take place at 31 March 2017. As you are aware, GAD commenced this process however it has not yet been completed, as the cost cap element of scheme valuations was suspended by the UK Government in early 2019 pending the resolution of McCloud. In a written ministerial statement on 25 March 2020, the Economic Secretary to the Treasury outlined the UK Government's intention to provide an update on the cost cap mechanism alongside proposals to address McCloud. We realise the challenges that actuaries face in considering the uncertainties in *McCloud* and the cost cap, particularly given the tight timescales for completing valuations. We regret that we are currently unable to suggest how provision might be made for any running of the cost cap process but hope to have more clarity in the next two months. We will write to administering authorities to provide an update at the earliest opportunity."

Governance

- 4.5 The Annual Report includes an Annual Governance 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 issued 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 and those delegated to the Chief Finance Officer, Lothian Pension Fund.
- 4.8 The funds have separate Actuarial Statements, 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 2017, with commentary by the actuary of the experience over the subsequent years.

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 funds and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse 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) 2020 for Lothian Pension Fund and Scottish Homes Pension Fund

Appendix 2: City of Edinburgh Council – Statement on the system of internal financial control by Head of Finance

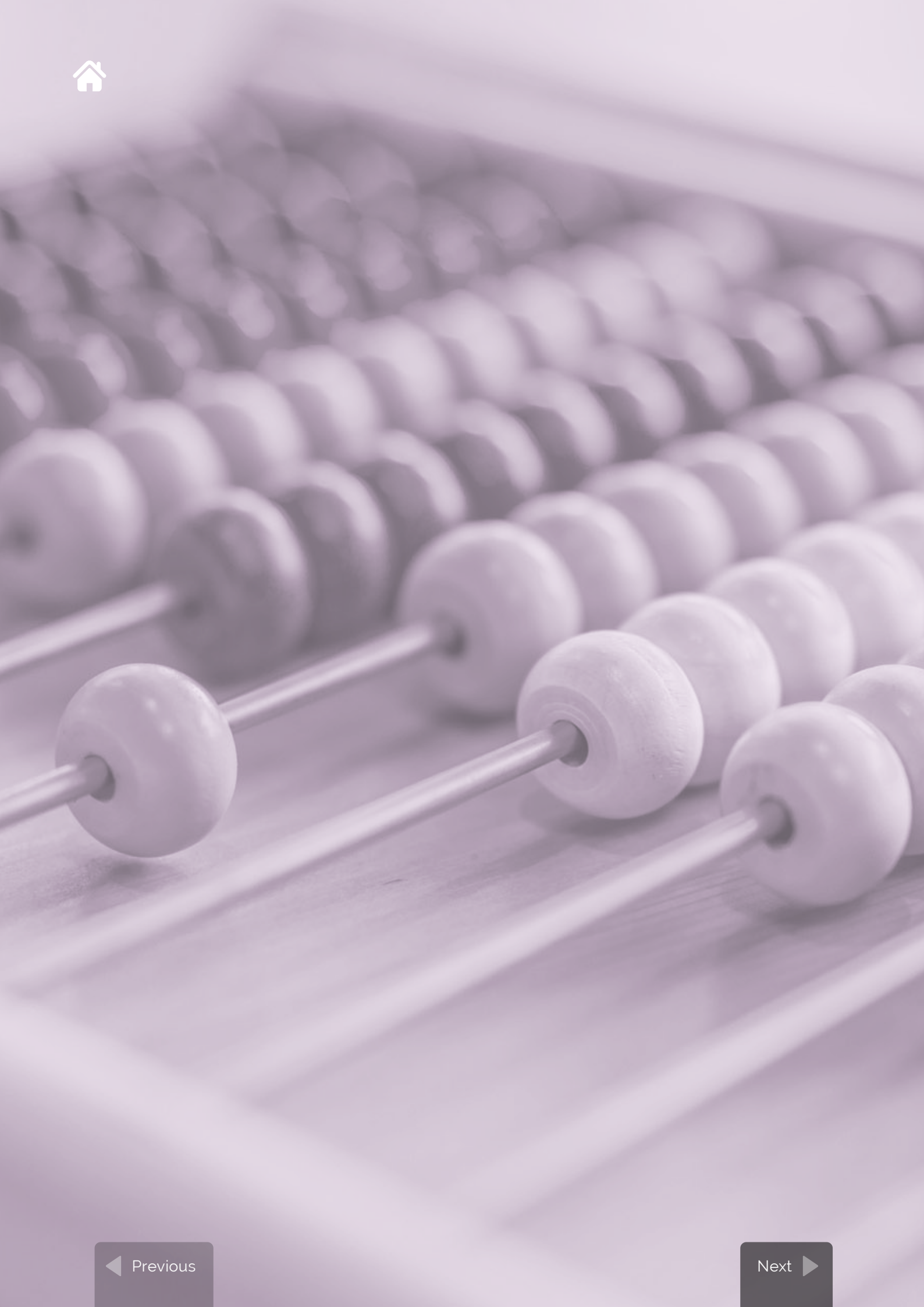
Appendix 3: Lothian Pension Funds – Statement on the system of internal financial control by Chief Finance Officer, Lothian Pension Fund



2019/20

UNAUDITED
ANNUAL REPORT
AND ACCOUNTS

**Lothian Pension Fund &
Scottish Homes Pension Fund**





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MANAGEMENT COMMENTARY / FOREWORD

Report by the Convener of the Pensions Committee

The end of this financial year has seen the world face an unprecedented situation with the Coronavirus affecting the lives of us all. During this period the team have shown professionalism and diligence to continue service delivery, and efforts continue to ensure this remains the case in the period that will follow. This challenging situation has affected some of the results reported in this publication and we have explained these areas and the effects throughout the report.



Turning to other issues, we still await further information on the Scheme Advisory Board in Scotland consultation on the LGPS structure started in 2018. Matters are progressing and we'll hear more about these in the future I am sure. We also await the specific remedies that follow the outcome of the McCloud case which relates to transitional protections given to scheme members in the judges and firefighters schemes which were found to be unlawful by the Court of Appeal on the grounds of age discrimination. In June 2019, it was announced that the Government had lost a case to appeal against the Court of Appeal ruling and the outcome of the case would apply to all public service schemes. While we wait for these remedies there continues to be an element of uncertainty on the value of liabilities.

At the end of the previous financial year the Fund appointed Doug Heron as Chief Executive Officer. During his first full year Doug and his leadership team have developed compelling plans for the Fund, supported by the Committee, and there are many examples of strategic progress including the implementation of a new front office system, a digital strategy for member service and the formation of a direct property investment team to manage the Fund's property assets internally.

The continued success of the Fund depends on the combined efforts of all and I would like to thank the Committee, Pension Board, employers and all the Fund's employees for their considerable work in delivering the service to members through difficult times.

Councillor Alasdair Rankin

Convener, Pensions Committee



MANAGEMENT COMMENTARY / FOREWORD

Report by the Convener of the Pensions Audit Sub-Committee

The Pensions Audit Sub-Committee's prime role is to monitor the operation of the Fund's internal controls, governance, risk and compliance arrangements and financial reporting.

We met three times during the year with a fourth meeting in March 2020 being cancelled due to the Coronavirus measures put in place at that time. Key activities included considering the Annual Report and Accounts as well as audit reports from both internal and external audit. Risk, compliance, fraud and investment custodian services were also considered.

The Sub-Committee plays a valuable role within the governance of the pension funds by providing additional scrutiny which adds value to members and employers.



Councillor Cameron Rose

Convener, Audit Sub-Committee

Report by the Chair of the Pension Board

The Pension Board comprises five representatives from both employers and members. The Board's primary function is to assist the administering authority in ensuring effective and efficient governance and administration of the fund. This includes compliance with the LGPS regulations and any other relevant legislation and requirements imposed by the Pensions Regulator in relation to the scheme.

The Board's deliberations are, of course, augmented by both officers of the Fund (on their specific areas of expertise) and by the Fund's Independent Professional Observer.

The Board usually convenes four times a year, however, due to restrictions of the 'Coronavirus Pandemic' it has only managed to meet three times. Board members have maintained regular communication via email and retained access to relevant information despite restrictions on face-to-face meetings. I'm glad to report that this limitation has not had any major impact on its continuing work over the past year and that meetings will now continue to be held remotely in line with the usual governance arrangements for the Fund.

Members of the Pension Board (and the Pensions Committee) are required by the Regulator to undertake regular training to be able to effectively undertake their





MANAGEMENT COMMENTARY / FOREWORD

important role. This necessary training is delivered jointly for both Board and Committee whenever possible. In addition, each member can also attend Conferences and other pension related external training to broaden their pensions knowledge.

Based on the above requirement, I can confirm that this year Board members carried out over 300 hours of training, which highlights their dedication to the delivery of this important role.

Along with its usual primary functions, one of the Board's other key tasks this year has been actively seeking ways of broadening our links with the other Boards within the Scottish LGPS. To facilitate this objective, we invited members from the other Pension Boards to come along both to meet with us, observe our meetings and enable us to share ideas and good practice. This new initiative is ongoing and in the coming year we hope to develop these relationships further.

In addition to this 'outreach initiative', the Board also undertook an internal in-depth review of its present functionality. As a result, the Board was able to update and improve our original processes and procedures to ensure that we continue to effectively fulfil our key role to the Fund and all its members.

My two years as the Chair of the Pension Board have now come to an end and I'd like to thank all my colleagues on the Board (both past and present), the Committee and all the Fund's officers and colleagues for their assistance in enabling me to carry out this important role. It has been in equal measure both a challenge and a privilege.

In accordance with the Board's Constitution, Sharon Dalli (Employer Board Representative) has been elected and now takes over from me as the new Chair of the Board. I'm certain that going forward the Board will be in very capable hands.

Jim Anderson

Union representative and Chair of the Pension Board



MANAGEMENT COMMENTARY / FOREWORD

Report by the Independent Professional Observer

I was appointed as the Fund's Independent Professional Observer in August 2018. My role helps strengthen Fund governance by providing the Pensions Committee and Pension Board with independent guidance and impartial knowledge independently from the Fund officers.



With more than 30 years of pension experience working with pension trustees on topics including investment, actuarial guidance and governance, I hold surgeries and provide quarterly updates to assist the Pensions Committee and Pension Board with their oversight of the pension funds, with funding, investment and collaboration being considered along with normal business of funds. To ensure that I'm available to assist all those involved in the governance of the Fund, I also attend the Pension Board meetings, the joint Investment Strategy Panel once a year and all of the LPF training events.

Andy McKinnell

Independent Professional Observer

WHAT OUR MEMBERS SAY:

'I have never received such a fantastic service. The staff were polite helpful and very professional.'





MANAGEMENT COMMENTARY / FOREWORD

We're proud to serve our key workers

Our vision and purpose is to deliver a valued retirement savings product for our members. Our 90,000 members all share a single common link: in their working lives, they serve or have served the public and we're incredibly proud of their work and their contribution to communities.



In our active membership we have 122 school crossing guards, 101 occupational therapists, 166 waste operatives and 558 social workers and we're working hard to provide them with a secure retirement. During the year we paid £252.4m in pensions to 31,500 pensioner members, or their dependants. We welcomed 7,489 new members and handled 60,000 enquiries with a 96% member satisfaction score.

During the year I was pleased to spend time in focus groups with our members and heard first-hand how much they value their LGPS benefits, the role we play in their lives and how they wish to see us develop as a fund. I took extensive notes from these sessions and the views shared form the basis of our plans for the years ahead.

A challenging year

Benefits payable to our members are protected by statute and so remain secure whatever happens in the financial markets. The final months of our financial year saw unprecedented disruption in our lives as a result of COVID-19 and the effect of this disruption weighed on the financial markets too, impacting some of our risk assets. Further detail is included in later sections of this report, but members should be unconcerned by how such investment markets affect their benefits with us. Our funding levels remain strong and our long-term horizon and statutory protections mean benefits are in safe hands.



MANAGEMENT COMMENTARY / FOREWORD

Of course the impact was not just felt in the financial markets, but in every aspect of our lives. We're sorry to report that a number of members sadly died from this infection, and we have offered assistance to their family and friends through efficient administration, payment of grants to help with expenses, and in prompt commencement of any benefits payable to dependants. The team have worked from their homes since 17 March and have faced many personal challenges with home-schooling and caring for relatives. I have been deeply humbled by their efforts to serve our members in these difficult times and I thank all 72 of them for their work, their resolve and their fortitude.

At the date of this report we're closely monitoring public health guidelines and the various aspects of the response with a view to ensuring the Fund, its members and our colleagues are protected. As a result, we continue to work from our homes and have adapted many ways of working to ensure we have sufficient resilience to deliver on our critical activities which includes serving our members.

Our employers have also been deeply affected by disruption and many of them face a year of significant financial uncertainty as a result of lost income or unplanned expenses. We're in close dialogue with our employers concerning their membership and obligations to the scheme.



Significant progress made

Despite the disruptions, 2019 / 20 was a year of significant progress for the team and there were many notable highlights. Within our team, we welcomed Helen Honeyman as Head of People and Communications, and Nicola Barrett and Lisa Pollock as we built a team to manage our directly held property assets internally, resulting in significant cost savings and increasing our level of control on how that strategy is executed. We also extended our investment partnerships with other LGPS funds and broadened the scope of the FCA authorisation for our investment firm, LPFI, establishing the potential for us to move beyond strategic advisory services to investment management.

On technology, we implemented an entirely paperless HR operating system, launched a new suite of websites, implemented member functionality to upload the documents we need, and we delivered an industry-leading investment order management system to streamline how our investment strategies are implemented. There's more to come here but I'm pleased with the momentum in our digital strategy.

Our new publication ENGAGE was launched in early 2020 with a positive reaction from stakeholders. We remain committed to being a responsible investor and we'll report on our key activities in this field in future issues of ENGAGE.



MANAGEMENT COMMENTARY / FOREWORD

Complexity in the LGPS

The Local Government Pension Scheme (LGPS) forms a core part of the employee proposition within the public services managed in local government and members enjoy secure benefits aiding attraction and retention of employees. Over time and with a number of well-intentioned policy interventions, the regulations on which those benefits are based and administered have developed multiple layers, become confusing for most members, and created a need for LPF and other LGPS schemes to offer increasing amounts of individual guidance to members. Our aim here is to make the complex as simple as we can, and to provide clear information from which members can make decisions about how and when to access their benefits according to their own circumstances. A simpler scheme with fewer layers would increase the potential for administrator efficiency, lower the operating costs of the scheme and allow members to more easily understand, and assign value to the benefits to which they're entitled. Setting the rules is beyond our remit but we stand ready to support any Government led initiatives that intend to achieve this outcome.

With McCloud, the Court ruling that age protections are discriminatory, we await an agreed remedy from HM Government, but the likelihood is that most members will reset back to the old rules and have a choice to elect into the new rules if they're beneficial. Such election may not be required when the remedy is finalised, and the member can therefore back a number of horses. This is likely to see us collate additional data on individual circumstances, generate tens of thousands of calculations and supply parallel benefit schedules to members each year. Ready for this we've closely examined our resourcing levels and started the process to train additional administrators, but our sponsoring employers will also feel the effect and we remain exposed to any limitations in their resourcing or systems.

Beyond McCloud, we look back to the driver of the 2015 rule changes and note this was intended to contain the cost of the scheme to employers. Some of the savings are given up with McCloud and so we expect to see either future benefit reduction or additional member contributions towards the cost of their benefits. This may well be another new schedule to complicate things further, although we can be absolutely certain that it won't contain transitional age protections given the discrimination ruling.



MANAGEMENT COMMENTARY / FOREWORD

The LGPS in Scotland

In 2018 the Scheme Advisory Board (SAB) launched a consultation on the future structure for the 11 LGPS Funds in Scotland. The responses can be viewed through the SAB website, with LPF indicating its support for a merger of like-minded funds to achieve a range of benefits. The SAB hasn't yet concluded its work but expects to conclude in the coming financial year. If the conclusion of this consultation is likely to impact our membership or create scope for us to merge with any other funds, we'll report in more detail as developments occur.

An operating plan for the year ahead

At the beginning of the current financial year (2020/21) we published our Operating Plan which set out the work we'll do under six broad target outcomes. Behind each are specific targets and I look forward to reporting to you on this work when we present our report and accounts next year. The target outcomes are:

- Provide secure and affordable benefits for our members
- Reduce complexity
- Manage our risks
- Create a place where great work happens
- Influence the LGPS of the future
- Be responsible

Finally, we must recognise those in our governance structure, primarily our Board and Committee, for their challenge, scrutiny and counsel during the year. Through these bodies we're able to access deep pools of experience, perspective and ideas and we value all such contributions.



Dr Stephen S Moir
Executive Director
of Resources
The City of
Edinburgh Council
24 June 2020



Doug Heron
Chief Executive Officer
Lothian Pension Fund
24 June 2020

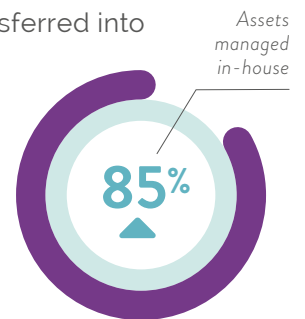


GOVERNANCE AND RISK

Lothian Pension Fund (LPF) administers the Local Government Pension Scheme (LGPS) in Edinburgh and the Lothians. We're a multi-employer scheme with over £7.5 billion assets and 98% funded at our last valuation in 2017, managing 87,900 records of 81,500 members and 80 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 a closed fund and has 1,550 deferred and pensioner members with £0.16 billion investments. Members of Homeless Scotland Action were transferred into this fund recently.

Our investment team is unique in Scotland in holding FCA authorisation. We manage over 85% of assets in-house via internal equity, bond and other real asset portfolios (e.g. infrastructure, property and timberland investments).



We established a regulated investment company providing resourcing, operational support, governance and deal execution for our private markets and gained FCA authorisation in 2015. This enables collaboration with other LGPS funds on investment strategy, private markets, and listed and indirect property investments.

In March 2017, we became the first UK Local Government pension fund awarded accreditation for the Pensions Administration Standards Association and have held the Customer Service Excellence Award for the last 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 the Annual Report and Accounts of the Fund, Statement of Investment Principles, Funding Strategy Statement and Pensions Administration Strategy and Pensions Discretions Policy.



GOVERNANCE AND RISK

The Pensions Committee and Pensions Audit Sub-Committee

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

The Pensions Committee normally hold four meetings and the Audit Sub Committee hold three meetings per year. However, the meetings to be held in March 2020 were cancelled due to the timing of the coronavirus pandemic. The Committee and Board nevertheless received a full cycle of papers for the March Committee, before certain critical items were approved at the Council's Leadership Advisory Panel under emergency powers. Notwithstanding any continued restrictions arising from the prevailing coronavirus pandemic, LPF's governance structures will now continue to operate as designed, with future meetings of the Committees and Board being held remotely until such time as they can revert to usual arrangements.

The table below shows the Committee members for the year 2019/20:

COMMITTEE MEMBERS FROM 1 APRIL 2019 - 31 MARCH 2020

PENSIONS COMMITTEE	PENSIONS AUDIT SUB COMMITTEE
Councillor Alasdair Rankin (Convener)	Councillor Cameron Rose (Convener)
Councillor Maureen Child	Councillor Maureen Child
Councillor Neil Ross	John Anzani (Member representative)
Councillor Steve Burgess (from June 2019)	
Councillor Cameron Rose	
Councillor Claire Miller (to June 2019)	
John Anzani (Member representative)	
Richard Lamont (Employer representative, VisitScotland)	



GOVERNANCE AND RISK

The Pension Board

The Pension Board was set up on 1 April 2015 as a result of 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 the Funds 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 of ten members, five representatives appointed from the employer bodies and five representatives appointed by trade unions for the membership of LPF. The Pension Board membership for 2019/20 is shown in the table below. There were two vacancies as of 31 March 2020.

MEMBER REPRESENTATIVES

Jim Anderson	Unison (Chair)
Thomas Carr Pollock	GMB
Brian Robertson	Unite
Thomas Howorth	Unison
Vacancy	
Neil Reid	Unite (appointed 11/11/19 resigned 22/01/20)

EMPLOYER REPRESENTATIVES

Sharon Dalli	Police Scotland
Darren May	Scottish Water
Alan Williamson	Edinburgh College
Lesley Henderson	West Lothian Council (appointed 25/06/19)
Vacancy	
Sharon Cowle	Scottish Legal Complaints Commission (resigned 28/10/19)



GOVERNANCE AND RISK

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 governance, ESG, responsible investment, contribution stability mechanism and club vita.

Committee and Board representatives also attended external conferences including the LGC Seminar Scotland in October and the PLSA Conference in March.

All members of both the Pension Committee and the Pension Board achieved the required training hours during 2019/20 except for one Pension Committee member and one Pension Board member who joined the LPF governance arrangements later in the year. Pensions Committee members collectively attended 289 hours of training as at 31 March 2020 and members of the Pension Board undertook 318 training hours.

Joint Investment Strategy Panel

Investment strategy guidance to the Committee is provided by a Joint Investment Strategy Panel (JISP), working in collaboration with the Falkirk Council and Fife Council pension funds. The JISP meets quarterly and includes senior officers and external independent advisers (currently Scott Jamieson and Gordon Bagot).

The Pensions Committee of each pension fund agrees their own investment strategy but delegates the implementation of 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.

A process is currently ongoing to re-procure the independent advisers on the JISP and, as part of that process, the three funds will look to put in place three independent advisers on the JISP, in addition to advisers from LPF's regulated investment vehicle, LPFI Limited (LPFI).



GOVERNANCE AND RISK

Lothian Pension Fund colleagues

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 the Fund). It's supervised by a board of directors, chaired by the Council's Executive Director of Resources and includes the Convener of the Pensions Committee. Our team carry out certain activities through our Financial Conduct Authority authorised vehicle, LPFI.

LPFI is also wholly owned by the Council (in its capacity as administering authority for the Fund) and is supervised by a board of directors chaired by the Council's Head of Finance. Both the boards of LPFI and LPFE comprise an independent non-executive director (Leslie Robb). A further non-executive director for each of LPFE and LPFI is anticipated to be appointed in the coming financial year.



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 investment, pension administration, employer liaison, data quality, customer support, accounting, people and communications, ICT oversight and governance, legal, risk and compliance and general business support.

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.

Over the year, the Senior Leadership Team (SLT) of the Lothian Pension Fund as at 31 March 2020 comprised:

- Doug Heron, Chief Executive Officer from February 2019
- Bruce Miller, Chief Investment Officer
- Struan Fairbairn, Chief Risk Officer, (Legal, Risk and Compliance)
- John Burns, Chief Finance Officer
- Mark Walton, Interim Head of People and Communications (until January 2020)
- Helen Honeyman, Head of People and Communications (from January 2020)

And, senior officers directly involved in the funds oversight structure from the City of Edinburgh Council were:

- Dr Stephen S Moir, Executive Director of Resources (Chair of LPFE board)
- Hugh Dunn, Head of Finance (Chair of LPFI board)
- Katy Miller, Head of Human Resources (Director on LPFE board)



GOVERNANCE AND RISK

Scheme Advisory Board

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 of seven representatives each from member and employers with a Joint Secretary to support each group. During the year, Councillor Rankin was a member and Chair of the Scheme Advisory Board and Fund officers have also advised the Board and Joint Secretaries. There's more information on the Scheme Advisory Board at www.lgpsab.scot.

Risk Management

LPF has comprehensive risk management and assurance procedures in place across its business functions and group entities. These include maintaining a group risk appetite, risk register and assurance mapping process, in conjunction with other underlying business and compliance processes.

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 itself comprises senior officers of each function within the group, as well as the Senior Leadership Team (SLT).



The approved risk register is tabled and considered by SLT following sign-off to ensure additional oversight and ongoing engagement with any resulting actions. Those actions are tracked and followed up by the Legal, Risk and Compliance team, in conjunction with the wider business, on an ongoing basis. The risk register is also circulated to the conveners of the Pensions Committee and Audit Sub-Committee, Chair of the Pension Board and Independent Professional Observer on a quarterly basis, with summary analysis and reporting provided to those bodies each quarter. In addition, an in-depth risk report is provided to the Audit Sub Committee annually, which includes a review of the full register.



GOVERNANCE AND RISK

Importantly, LPF's risk appetite and assurance structure are designed to 'flex' to ensure that they continue to be proportionate to the size and nature of our business, and also adhere to the following industry best practice principles:

- Ensure that our risk appetite aligns with our strategy and is set by the senior management team without undue influence
- Integrates risk as a key component of our management and decision-making processes
- Engenders an open, 'live' and engaged risk culture which seeks to pro-actively identify current and future risks for the business, simplifying layers of controls to ensure this is not stifled, and so...
- Not establish or perpetuate systems, controls or processes which are out of line with, or disproportionate to, the group's risk appetite
- Remain aligned to LPF's existing resources and organisational development
- Ensure an effective and independent risk and compliance function is maintained
- Ensure appropriate levels of separation and independence of each of the 'four lines of defence', as a general principle and in line with the standards of the UK regulated financial services sector
- Ensure appropriate levels of co-operation and information sharing across the 'four lines of defence'

As at 17 February 2020, the last meeting of the Risk Management Group in the year, the most significant risks (after taking account of risk reduction controls and as assessed using a score out of 100) are shown in the table below. Please note that these scores don't reflect the considerations of the additional meeting of the Risk Management Group held in April 2020 to consider COVID-19 impacts, which will be reported in next year's annual report.

Description	Impact	Probability	Risk Score
Adverse investment performance leading to pressure on employer contributions	5	4	20
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions	5	5	25
Failure of an employer to pay contributions causes either a significant fall in funding level or requires higher contributions from other employers	4	4	16
Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications	8	5	40
Colleague resource within the fund insufficient to carry out core task in conjunction with active or anticipated projects.	6	5	30



GOVERNANCE AND RISK

Separately, we maintain a detailed risk monitoring and assurance process for LPFI. That focuses on the specific risks associated with that entity and its regulated business as part of its Internal Capital Adequacy Assessment Process (ICAAP). The LPFI board has oversight of this process.

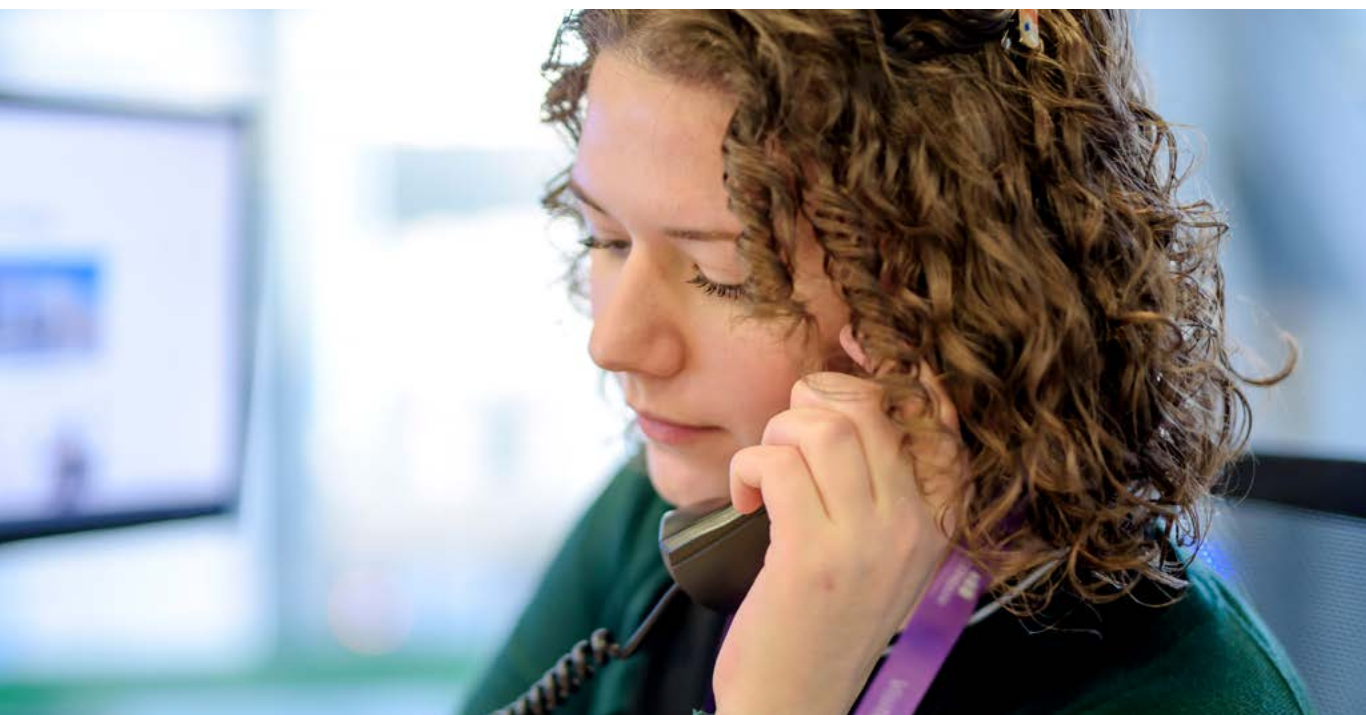
Risk Assurance

LPF operate a bespoke assurance framework designed to ensure we have effective controls and oversight across the 'four lines of defence', being:

1. Business units
2. Control functions and internal oversight bodies
3. Internal audit
4. External audit and other external assurance

We maintain an assurance overview and mapping document which is updated on an ad hoc basis and reviewed annually by our Audit Sub Committee.

All this is designed to ensure that we meet our objectives, are adequately resourced, managed to high professional standards, meet legislative requirements and have high customer satisfaction.





WE'RE PROUD TO SERVE
**101 OCCUPATIONAL
THERAPISTS**





INVESTMENT

Investment markets

For the 12 months to 31 March 2020, UK equities (FTSE All Share) returned -18.5%, while global equities (MSCI ACWI, in GBP) returned -6.7%. The fall in global equities for sterling-based investors was mitigated by a weaker pound (global equities returned -10% in local currency terms). Sterling had strengthened over 2019 as UK political uncertainty cleared with the election of a majority Conservative government in December 2019. However, it then sold off sharply in March 2020 (along with risk assets) in response to the widening COVID-19 (coronavirus) pandemic. 12-month equity returns were dominated by the outsized moves in the first quarter of 2020 when UK and global equities (in sterling) returned -25.1% and -16.0%, respectively.

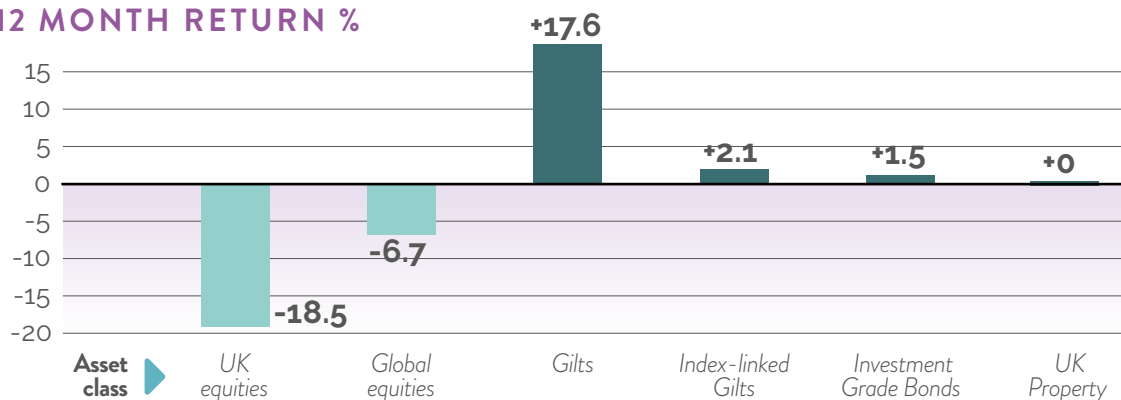


Government bond yields reached record lows in August 2019 as investors sought relative safety in the face of recession fears, in the process pushing the amount of negative yielding sovereign debt to an all-time high. However, the prospect of an initial trade agreement between the US and China buoyed risk assets and bond yields rose during the fourth quarter of 2019. Markets continued to perform strongly into early 2020, seemingly discounting any major economic impact from the January coronavirus outbreak in China. However, as international outbreaks emerged in mid-February, volatility rose.

At the beginning of March, Russia and Saudi Arabia started an oil price war as negotiations on production cuts to offset declining demand broke down. Combined with the increasing spread of the coronavirus pandemic, risk assets sold off sharply through to mid-March as equity market volatility rose to its highest level in the last 30 years. The Bank of England, the US Federal Reserve and other central banks reduced their benchmark interest rates close to zero to support their economies through the ongoing crisis. UK and US government bond yields ended the year to 31 March 2020 near their all-time lows.

The table below shows index returns over 12 months to 31 March 2020 for a range of asset classes.

12 MONTH RETURN %



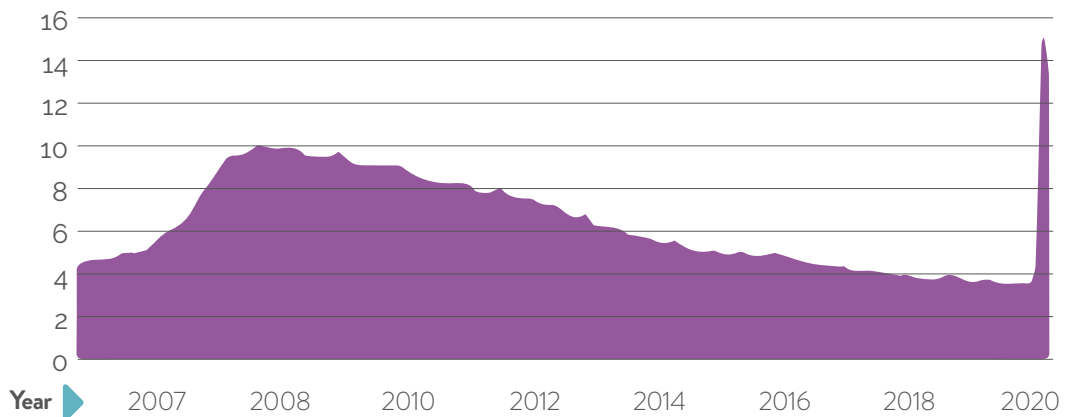
Source: Bloomberg and MSCI



INVESTMENT

The speed and severity with which lockdowns have impacted economies is illustrated in the chart below, which shows the surge in the unemployment rate in the US from 3.5% in February to 14.7% in April, vastly exceeding the peak of 10% during the global financial crisis.

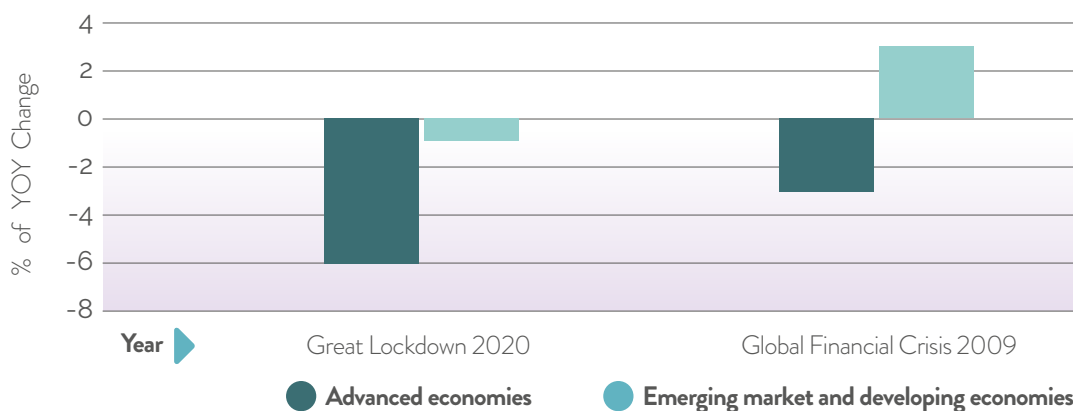
USA UNEMPLOYMENT RATE (%)



Source: US Bureau of Labor Statistics, Bloomberg

The most recent April 2020 forecasts by the IMF (in the chart below) also indicate that the damage to global growth will be worse than the downturn of 2008/2009.

REAL GDP GROWTH YEAR-ON-YEAR % CHANGE



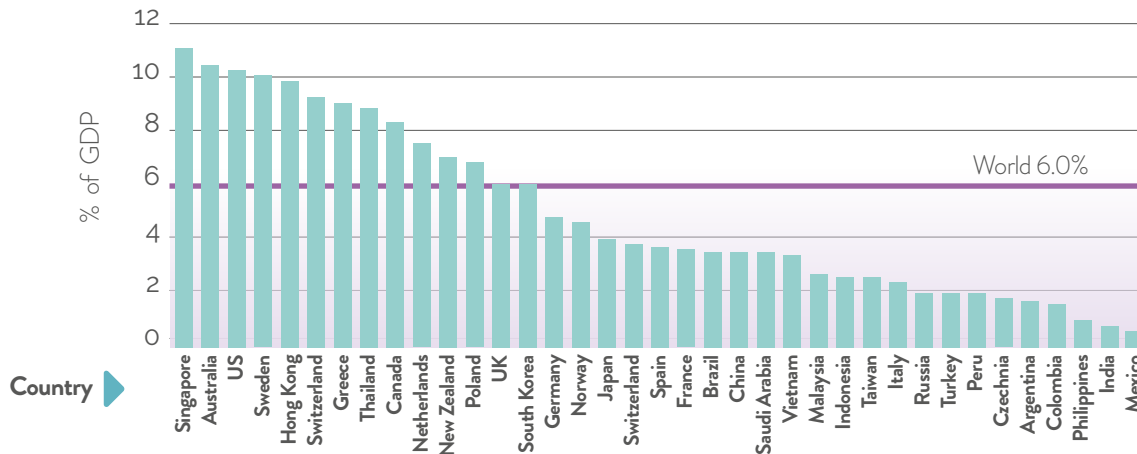
Source: IMF, blogs.imf.org, 14 April 2020



INVESTMENT

As the coronavirus crisis has unfolded, the scale of monetary and fiscal stimulus and support announced by central banks and governments worldwide has been unprecedented; fiscal stimulus measures alone have been estimated at c6% of global GDP (see chart below). Markets have responded positively with equities bouncing (at end April 2020) almost +30% off their mid-March lows. The market reaction suggests that many believe that the support may be enough to offset the deeply negative economic and business impacts, enabling a quicker return to normalised economic activity than more cautious observers are projecting.

NEW FISCAL STIMULUS MEASURES TO TACKLE COVID-19 IMPACT



Source: Macrobond, LGIM estimates, 24 April 2020

Investment strategies

The investment strategies for LPF reflect our long-term objective of maintaining an acceptable balance between contribution stability and the achievement of positive long-term real returns from the assets owned.

The most recent review of the investment strategies was undertaken in 2018/19, taking into account the results of the 2017 actuarial valuation. Investment strategies are set at the broad asset class level of Equities, Gilts, Non-Gilt Debt, Real Assets and Cash, which are the key determinants of investment risk and return. The strategic allocations for the Fund will be reviewed again following the results of the 2020 actuarial valuation.



INVESTMENT

Lothian Pension Fund

To provide suitable investment strategies for the differing employer requirements, the Fund currently operates four investment strategies. The strategies at 31 March 2020 are presented in the table below. The total fund strategy is simply a weighted average of the four individual strategies.

LOTHIAN PENSION FUND 31 March 2020	Main strategy	Mature Employer strategy	50/50 strategy	Buses strategy	Total fund strategy
Equities	65.0%	0.0%	32.5%	35.0%	62.0%
Real Assets	18.0%	0.0%	9.0%	18.0%	17.7%
Non-Gilt Debt	10.0%	0.0%	5.0%	20.0%	10.5%
Gilts	7.0%	100.0%	53.5%	27.0%	9.8%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100%	100%	100%	100%	100%

More than 90% of employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy aiming to generate relatively high investment returns within reasonable and considered risk parameters and hence reduce the cost to the employer.

A small number of employers are funded in the Mature Employer Strategy, which invests in a portfolio of UK index-linked and nominal gilts to reduce funding level and contribution rate risk to a level appropriate to their circumstances. The liabilities funded by the Mature Employer Strategy represent less than 1% of total Lothian Pension Fund liabilities.

COLLEAGUE PROFILE **Albert Chen, Portfolio Manager**

Albert joined LPF in January 2017 as a Portfolio Manager with responsibility for the Fund's investments in credit, private debt and private equity. He also contributes on investment strategy as a member of the Asset Allocation Committee and supports the Fund in its work with collaborative partner funds and on LGPS issues. Albert says:

"I really enjoy being part of a team focused on generating positive investment outcomes for the Fund, its members and employers. Working with like-minded partners on shared investment challenges is an added bonus."





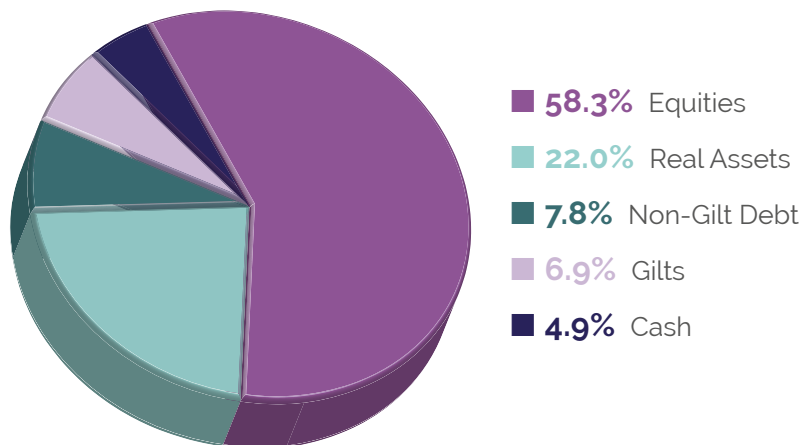
INVESTMENT

Just over 1% of liabilities are funded by the 50/50 Strategy, which is a combination of the above two strategies. The 50/50 Strategy is for employers who are closed to new members but who don't yet qualify for the Mature Employer Strategy.

Finally, the Lothian Buses employer is funded in the Buses Strategy. The liabilities associated with the Buses Strategy represent approximately 7% of Lothian Pension Fund liabilities.

The total fund strategy in the table above is the long-term target allocation to the five policy groups (or asset classes). The actual allocation at end March 2020 is presented in the pie chart below.

**LOTHIAN
PENSION FUND
ACTUAL ASSET
ALLOCATION
(%) AT 31/03/2020**



WHAT OUR MEMBERS SAY:

'I find the Fund staff very easy to talk to and helpful. The human element is very important, so please don't lose it.'





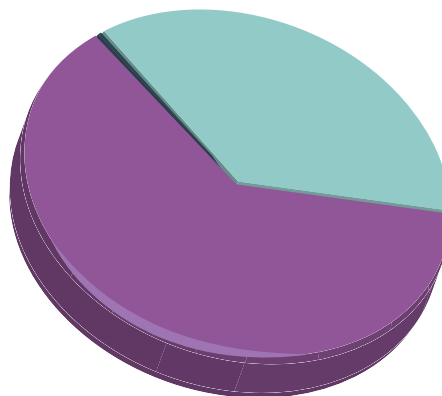
INVESTMENT

Scottish Homes Pension Fund

The investment strategy for the Scottish Homes Pension Fund is designed to minimise funding level risk. It's a relatively mature pension fund and is invested entirely in UK government securities (both index-linked and nominal gilts) and cash at 31 March 2020.

The implementation of the strategy reflects the nature of the liabilities, some of which are fixed and some of which are index-linked. The investments match the interest rate and inflation sensitivity of the liabilities as closely as possible. In addition, the cash flow of assets matches with future pension payments up to one year beyond the next actuarial valuation (end March 2020) to minimise transaction costs and funding level risk.

SCOTTISH HOMES PENSION FUND ACTUAL ASSET ALLOCATION AT 31/03/2020



- **63.6%** Index linked gilts
- **35.6%** Nominal gilts
- **0.8%** Cash

Internal investment team

Investment strategies for the Fund are implemented and monitored by our experienced internal team of investment professionals supported by external advisers. Over recent years, our internal team has expanded with very positive effects on costs and capabilities.

During 2019/20, our internal team was expanded with the establishment of a team responsible for direct property investments to complement the existing property expert responsible for managing, monitoring and advising on indirect property for LPF and our collaborative partners. The team was also strengthened with the appointment of one senior and one trainee investment analyst. The majority of LPF's listed equity and publicly traded bond assets continue to be managed internally.

The focus on internal investment capabilities reflects the Fund's focus on cost-effective implementation of our investment strategy, but it also strives for improved governance, oversight and greater alignment of interest. One of our guiding principles is to use strong internal investment capabilities to their maximum potential and to retain external managers for specialist mandates.



RESPONSIBLE INVESTMENT

Responsible Investment (RI)

Lothian Pension Fund must deliver positive real returns on its investment portfolio over the long term to pay pensions. In our investing activities, we act in our members' interests by positively contributing to a more sustainable and resilient financial system, supporting sustainable economic growth and a thriving and fairer society.

We've been a signatory of the UN-backed Principles for Responsible Investment (PRI) since 2008 and align our practices and processes to their six principles and definition of Responsible Investment.

Our approach is informed by our investment beliefs, policies and priorities, together with regulations and statutory guidance. The six principles are embedded in our investment processes and everyday activities.

PRINCIPLE 1:

We'll incorporate ESG issues into investment analysis and decision-making processes

PRINCIPLE 2:

We'll be active owners and incorporate ESG issues into our ownership policies and practices

PRINCIPLE 3:

We'll seek appropriate disclosure on ESG issues by the entities in which we invest

PRINCIPLE 4:

We'll promote acceptance and implementation of the Principles within the investment industry

PRINCIPLE 5:

We'll work together to enhance our effectiveness in implementing the Principles

PRINCIPLE 6:

We'll report on our activities and progress towards implementing the Principles



PRI

‘RESPONSIBLE INVESTMENT IS AN APPROACH TO INVESTING THAT AIMS TO INCORPORATE ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS INTO INVESTMENT DECISIONS, TO BETTER MANAGE RISK AND GENERATE SUSTAINABLE, LONG-TERM RETURNS.’



RESPONSIBLE INVESTMENT

PRI Annual Assessment

All PRI signatories agree to the PRI organisation undertaking a comprehensive annual assessment of their approach to RI. This independent appraisal is made publicly available on our website www.lpf.org.uk and a summary of Lothian Pension Fund's latest evaluation is shown below. It highlights that the Fund's processes and approach to Responsible Investment are rated at or above the median of asset owner signatories across all categories measured.

SUMMARY SCORECARD

AUM	Module Name	Your Score	Legend
	01. Strategy & Governance	A+	
Indirect - Manager Sel., App. & Mon			
<10%	02. Listed Equity	A	
<10%	05. Fixed Income - Corporate Non-Financial	A	
<10%	07. Private Equity	A	
<10%	08. Property	A	
10-50%	09. Infrastructure	A	
Direct & Active Ownership Modules			
10-50%	10. Listed Equity - Incorporation	A	
10-50%	11. Listed Equity - Active Ownership	A	

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 on behalf of our members and their dependants and have a fiduciary duty to act in a financially prudent manner and to consider factors of ESG in the context only 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. Lobby groups often present ethical arguments for divestment of specific investments. They create adverse publicity to further their campaigns, sometimes being selective in their use of facts to raise awareness and to create impact, often with an incomplete understanding of the investments that they oppose.

The issues raised by lobby groups often centre on complex social, legal or moral issues, and while we are unable to divest investments for these reasons, we can use the views of lobby



RESPONSIBLE INVESTMENT

groups, where supported by credible evidence, to support our assessment of financial risk. As a Responsible Investor, LPF engages with companies in whom we invest to influence improved ESG outcomes and our belief is that doing so as an active investor is more responsible than divestment.

Stewardship Code

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting transparency and integrity in business. It sets the UK's Corporate Governance and Stewardship Codes. The full LPF [statement of compliance](#) with the UK Stewardship Code can be viewed on our website.

Collaboration

There are limits to the influence that we achieve as a single investor and the resources we can reasonably commit. We recognise that progress can be best achieved on ESG issues through collaboration with other investors and organisations. We're an active member and supporter of several Global and Industry ESG Initiatives:

[Principles for Responsible Investment \(PRI\)](#)

We've been a signatory to the PRI since 2008 and focus heavily on how to implement the six Principles of Responsible Investment into our everyday work to be good stewards of capital. PRI is an important partner, providing excellent guidance on responsible investment and we work closely with them on the future direction of the organisation.

[Federated Hermes EOS \(EOS\)](#)

We've been clients of Hermes EOS since 2008 and they manage most of our voting and engagement activity. Our Internal Equities team work closely with EOS in our collective approach to engagement, reflecting the areas of stakeholder interest and concern. Through working collaboratively with EOS, and alongside EOS's international client base, we're able to have a stronger voice when engaging with our investee companies.



RESPONSIBLE INVESTMENT

Climate Action 100+ (CA100+)

CA100+ is an international collaborative initiative encompassing investors representing over \$40 trillion in assets. Signatories to Climate Action 100+ are requesting the boards and senior management of companies to:

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities
- Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2°C above pre-industrial level
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2°C, and improve investment decision-making.

The Transition Pathway Initiative (TPI)

TPI is a global initiative led by asset owners and supported by asset managers. Aimed at investors and free to use, it assesses companies' preparation for the transition to a low-carbon economy, supporting efforts to address climate change. TPI:

- Evaluates and tracks the quality of companies' management of their greenhouse gas emissions and risks and opportunities related to the low-carbon transition
- Evaluates how companies' planned or expected future carbon performance compares to international targets and national pledges made as part of the Paris Agreement
- Publishes the results of this analysis online through a publicly-available tool hosted by its academic partner, the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE).

We're a public supporter of TPI and the extremely useful data it produces.

The Local Authority Pension Fund Forum LAPFF

LAPFF is a collaborative shareholder engagement group, comprising over 80 UK local authority pension funds and six of the LGPS pension fund pools in England & Wales. A member of Lothian Pension Fund's Pensions Committee, John Anzani, is on the executive board of LAPFF and has represented LAPFF and its member funds in high level engagement with company management.



RESPONSIBLE INVESTMENT

LPF also works closely with other asset owners in several semi-formal working groups including:

- The Cross-Pool RI Working Group: a group comprised of the heads of responsible investment at the English and Welsh local authority pensions pools, alongside representatives of many of the underlying schemes and the Scottish local authority pension funds
- The UK Asset Owners RI Roundtable: a group comprised of several UK asset owners including the local authority pools, many corporate schemes including Railpen, NEST and Unilever, and faith-based funds including the Church Commissioners and the Church of England Pensions Board
- The Scottish Asset Owners RI Roundtable: a new collaborative initiative between Scottish Asset owners. Members include local authority funds, Universities, and corporate defined-benefit and defined-contribution pension schemes.

All these groups aim to share best practice between asset owners with the aim of raising RI standards throughout the industry. We're very active in the initiatives of these groups.

Engagement

We believe that the best way to alter listed company behaviour for the better is through meaningful structured engagement with the management teams and boards of the companies that we hold.

The Fund commits significant resources to engagement activity, most of which is undertaken by the our voting and engagement service provider and partner, Federated Hermes EOS (EOS).



Federated Hermes EOS brings a focus and expertise to engagement activities, as well as scale, by representing a large number of like-minded clients.

As EOS engages on behalf of a wide shareholder base, they can effectively influence management to enact positive change in investee companies.

EOS consults with its clients to develop an engagement plan so that it can prioritise engagement activity. The latest plan (available on our website [\[insert link\]](#)) highlights 12 main themes for engagement over the three-year period 2019-21.



RESPONSIBLE INVESTMENT

In the diagram below, the themes surrounding the core subjects of engagement activity are: environmental matters; social issues; and strategy, risk and communication.

Each theme is described in detail in the engagement plan, including: background information on the importance of each theme; the main outcome objectives; the methodology for tackling each theme; and EOS's description of best practice in each area.

We stand behind EOS in achieving progress in each of these areas, and our Internal Equities team offers support and ideas to help them to carry out this vital work.

Our Internal Equities team undertakes formal and informal engagements during its many company management meetings each year. The highest profile of these is LPF's participant membership of Climate Action 100+, where the internal portfolio managers represent investors totalling \$40 trillion of assets in engagement with a major European utility company.





FORTUM

As part of climate action 100+, our internal team at lpf has been engaging with finnish utility company fortum to improve its carbon performance. While fortum is a leader in european renewables, it does have plenty of carbon intensive generation, particularly in its russian business. The company has also recently acquired a controlling stake in uniper, one of europe's largest fossil-fuel based generators. We've had a series of meetings with the cfo, ceo and chair of fortum and have delivered a [statement](#) (p50) at their 2020 virtual agm. There's a lot of work that fortum still needs to do, particularly around its plans for the acquired generation at uniper and forthcoming coal phase-out in europe, but the company is taking many of the right steps – it has been a long-time supporter of carbon pricing in europe, and its top management has entered an open and honest dialogue with the climate action 100+ engagement group.

Recent announcements of a commitment to net zero by 2035 in the uniper european business is a huge change in strategy for the business and we hope this will be followed by significant announcements on net zero and coal phase-out from fortum.



RESPONSIBLE INVESTMENT

Voting

We vote on the resolutions of 100% of the companies in which we're invested. Two of our external providers are charged with voting on the Fund's behalf based on pre-agreed policies. This is done by Baillie Gifford, who manage assets for LPF, and EOS, our voting and engagement partner.

Annual General Meetings (AGM) present asset owners with another opportunity to influence management on important issues. Shareholders can file resolutions which allow all other shareholders to vote on matters that aren't raised by management.



We co-filed a resolution for BP's AGM in May 2019, calling for greater transparency and disclosure on the company's approach to carbon emission and low-carbon transition planning. The resolution was backed by BP management and supported by 99.14% of investors. BP has since committed to provide investors with a new strategy consistent with the goals of the Paris Agreement, as well as providing further disclosure on capital expenditure and various company metrics and targets, including annual progress reports.

Climate Change

As of February 2020, 196 states and the EU had ratified or acceded to the Paris Agreement of the United Nations Framework Convention on Climate Change, with the only significant emitters still not parties being Iran and Turkey. Under this agreement, each country must determine, plan and regularly report on the contribution it undertakes to mitigate global warming. The three key aims of the 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 culture with regards to 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.



RESPONSIBLE INVESTMENT



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 the Fund's approach to climate change-related risks and opportunities in its PRI reporting.

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.



The TCFD is in its relative infancy and LPF is challenging companies to improve their disclosure and is rapidly integrating the specifics of climate change into the risk management and governance of the Fund. Over the last few years, we have undertaken substantial work on the issue.



RESPONSIBLE INVESTMENT

Climate Change – Governance

In accordance with training policy, the Pensions Committee and Pension Board are required to undertake a minimum of 21 hours training. Each year, the Fund's provider of voting and engagement services is invited to present to and interact with the Committee and Board. During 2019/20, they received training on climate change-related risks and opportunities, and climate-specific reporting, including a carbon footprint of the Fund's equity holdings, which is now updated annually. The Pensions Committee's approach to climate change risks are encapsulated in the recommendations agreed in June 2018:



- Reaffirm the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends, into its decision-making
- Note that the Fund scrutinises and engages with investment managers to ensure that they are taking ESG issues, including climate change and carbon risk, into account in their investment decision-making
- Reaffirm the Fund's policy of not divesting solely on the grounds of non-financial factors
- Note that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies
- Agree that the Fund should aim to influence engagement activity based on its shareholdings of companies that perform poorly on carbon efficiency measurements.

The Committee and Board considers climate related issues as part of its annual review of the Fund's approach to Stewardship. In late 2018, LPF organised an event on our responsible investment approach and activities, to which major stakeholders and elected officials of local authority employers were invited. This provided the opportunity for discussion with investment managers, legal professionals, representatives from PRI and Hermes EOS and Committee and Board members. A recording of the whole event is available on our website, for those who want or need to understand the Fund's approach.

Climate-related risks and opportunities are an integral part of the overall investment process for LPF. The Pensions Committee is responsible for setting investment strategy and delegates investment decision-making to officers and investment managers with advice from the Joint Investment Strategy Panel. 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.

Academic research commissioned by Lothian Pension Fund suggests that divestment at best is ineffective, and at worst provides a clear disincentive for management to change.

The Fund's approach to engagement relies heavily on our engagement and voting partner, Hermes EOS. Hermes EOS engages with companies on a range of engagement issues including climate change. The internal management team also engages with company management on a regular basis as part of company roadshows and investment conferences.



In addition, LPF has joined the Climate Action 100+ investor initiative and is actively participating in engagement with one of the 167 target companies in the list of systemically important carbon emitters identified by the initiative.

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 carbon transition.

**University of Edinburgh Master's in Economics Dissertation, "In response to the recent Paris Agreement, how might pension funds contribute to helping reduce global climate change through investment policy?", Cooper, 2019*



RESPONSIBLE INVESTMENT

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 quantitatively managed equity funds utilise engagement with managers to improve practices. The selection and monitoring process for 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 public spending on green energy is 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. 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. To date, no divestments due to outsized climate-related risks have been made,

but there has been meaningful engagement activity as highlighted above.

While it's widely acknowledged that Climate Change is one of the great issues facing society, it's one of several risks that the Fund 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 report a measure of carbon efficiency (the weighted average carbon intensity, with units of tons CO₂/\$M sales). We use a carbon efficiency



RESPONSIBLE INVESTMENT

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 weight these intensities according to the portfolio position sizes and add all the weighted intensities to give a figure for the portfolio and the index.

	2018 Weighted Average Carbon Intensity (tons CO2/\$M sales)	2019 Weighted Average Carbon Intensity (tons CO2/\$M sales)	Year on year change	2020 Weighted Average Carbon Intensity (tons CO2/\$M sales)	Year on year change
LPF All Equities	328.6	325.2	-1.0%	294.9	-9.3%
MSCI ACWI	218.9	200.2	-8.5%	178.1	-11.1%

Source: MSCI

These numbers are presented on the basis of Scope 1 and 2 carbon emissions.

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

GRESB data in the infrastructure and real estate asset classes is being assessed and will be incorporated into reporting in these areas in future. Support for the Carbon Disclosure Project also allows access to useful research that's considered during due diligence on investments.

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". We firmly believe that global decarbonisation will provide benefits to society and the environment, and we therefore support efforts to reduce carbon emissions.

The carbon intensity numbers as reported 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.

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 being an irresponsible divestor. We'll continue to engage with our holdings rather than setting specific carbon intensity targets for our overall portfolio.

There is no reduction in global carbon output if LPF sells carbon intensive businesses.





RESPONSIBLE INVESTMENT

Infrastructure Investment

Infrastructure investments have the potential to generate attractive risk-adjusted returns, with cash flows often linked to inflation. The long-term and defensive nature of these assets can also provide an element of diversification to the Fund's investment strategy.

Over the last 15 years, LPF has developed our reputation, networking and execution capabilities to secure access to investment opportunities within this market niche. The Fund's experienced team appraises and invests in primary and secondary funds as well as co-investments, to achieve our target allocation in a cost-effective manner. An important element of the implementation strategy is to work closely with investment managers to ensure execution certainty and to diligence the commercial and legal terms. Collectively, with our collaboration partners, LPF committed over £300 million in infrastructure investment during 2019/20.

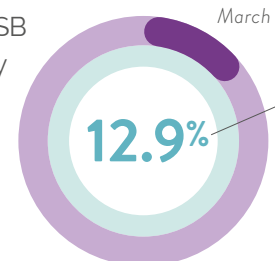
LPF has a long-standing commitment to responsible investment. In addition to becoming a signatory of the PRI (Principles of Responsible Investment) in 2008, we have subscribed to GRESB (Global Real Estate Sustainability Benchmark) to further enhance our analysis of environmental, social and governance (ESG) issues.

At 31 March 2020, 89% of the Infrastructure portfolio value was invested in assets/funds which were also signatories of the PRI and 32% of funds participated in the 2019 GRESB Infrastructure Assessment, a relatively new initiative. Most of Lothian Pension Fund's infrastructure funds also publish an internal ESG policy, outlining the consideration given to ESG issues within the decision-making and ongoing investment monitoring process, and this has become a standard requirement/consideration for manager selection.

Within the GRESB Infrastructure Assessments, participating funds and assets report annually to GRESB on their internal controls and policies. GRESB validates the submitted data and assesses the fund or asset with reference to a series of performance indicators, including the sustainability of its investment strategy, stakeholder relations and level of gender/diversity reporting. The aggregate scores determine a total fund or asset score which can be used to benchmark performance against its peer group.

Funds and assets across all infrastructure sub-sectors can participate in the GRESB Infrastructure assessments, but Transport and Renewable Power assets currently have the greatest participation rate within Lothian Pension Fund's portfolio.

Infrastructure investments represented 12.9% of the value of Lothian Pension Fund assets at 31 March 2020, comprising one of the largest and most diversified allocations among UK LGPS funds. Of the total infrastructure investment of £962 million (31 March 2019: £870 million), the majority is invested in the UK.



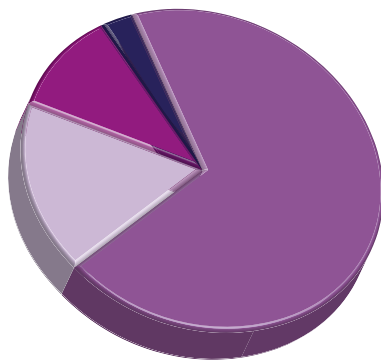


RESPONSIBLE INVESTMENT

During 2019/20, Lothian Pension Fund completed investments in eight secondary fund interests and made three co-investments. Approximately £165 million has been invested over the year in UK, European and Global infrastructure assets. During the same period, £187 million has been distributed/returned to the Fund. Of note, there were two successful realisations generating proceeds of £80 million and recording a net internal rate of return over 20% and a total value to paid-in multiple of 2x. A sale of another of the larger assets was agreed, which crystallises proceeds of approximately £39 million in April 2020.

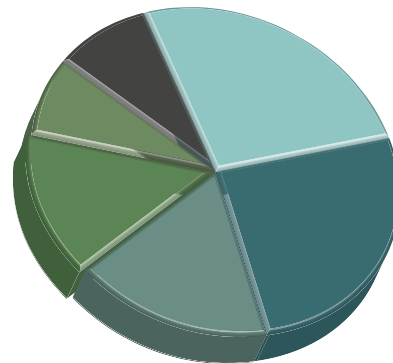
The geographic and sector diversification for Lothian Pension Fund infrastructure (as percentage of infrastructure asset value of £962m at 31 March 2020) is shown in the charts below.

GEOGRAPHIC DIVERSIFICATION



- **69%** UK
- **17%** Europe ex UK
- **11%** North America
- **3%** Rest of the world

SECTOR DIVERSIFICATION



- **26%** Utilities
- **26%** Social Infra.
- **17%** Renewables
- **14%** Transportation
- **9%** Telecom & Others
- **8%** Energy & Power

Infrastructure investments in the UK contributed 69% (or £661 million) of the total. The Fund's 20 largest UK investments, representing £407 million of value, are shown in the map below.

Investments are made across a diverse range of projects, in the areas of:

- Utilities (including regulated water, gas and electricity)
- Social infrastructure (including hospitals, schools and roads)
- Renewables, Energy and Power (including wind farms, biomass and natural gas pipelines)
- Transportation (including ports and rail); and
- Telecom and Others (including telecom towers and car parks).



RESPONSIBLE INVESTMENT

We recognise the role infrastructure investment can make to address part of the current environmental challenges related to climate change. Approximately, 17% of the infrastructure portfolio is invested in renewable energy.

During the year, the Fund allocated c. £32 million to new investments in UK renewable energy projects and new opportunities continue to be appraised.

Since March 2020, the impact of COVID-19 on the Lothian Pension Fund infrastructure portfolio has been closely monitored. The portfolio sector bias towards regulated utilities, social infrastructure and renewable energy, includes essential critical assets which benefit from contracted or regulated income streams, and is expected to largely insulate the portfolio from material adverse financial impacts derived from COVID-19.



WHAT OUR MEMBERS SAY:

'The service provided has been excellent in every way. Thank you.'



FUNDING STRATEGY STATEMENT

The Funding Strategy Statement covers the funding strategies for Lothian Pension Fund and Scottish Homes Pension Fund and can be viewed on our website www.lpf.org.uk/publications.

The purpose of the Funding Strategy Statement is to:

- Establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward
- Support the regulatory framework to maintain as nearly constant employer contribution rates as possible
- Take a prudent longer-term view of funding those liabilities.



These objectives are desirable individually but may be mutually conflicting.

The Funding Strategy Statement also ensures that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the Funds (as defined by the Public Service Pensions Act 2013) are met.

Key policies, including the Fund's Admission Policy and Policy on Employers Leaving the Fund are appended to the Funding Strategy Statement. The policy on Employers Leaving the Fund sets out the Fund's approach to dealing with employer exits, including principles for determining payment of cessation debt.





FUNDING STRATEGY STATEMENT

The Funding Strategy Statement was revised at the 2017 Actuarial Valuation and reflects CIPFA guidance: "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016".

In addition, updates required as a result of changes to the Scheme Regulations and other pensions legislation included:

- The introduction of a new medium risk investment strategy intended to smooth the path to exit and reduce the deficit risk when an employer leaves the Fund
- The requirement for employers to provide written confirmation that minimum contribution rates set by the Actuary are not unaffordable.

As required by Scheme Regulations, the Fund consulted with employers as part of the review process. Further amendments were made in 2019 to incorporate changes to Scheme Regulations in 2018 and an update to the Fund's bulk transfer policy. The Funding Strategy Statement will be revised again as part of the 2020 valuation, with a further consultation exercise carried out as part of this process.

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 the Fund'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 2020. Member data will be supplied to the Actuary during Summer 2020, with results reported later in the financial year 2020/21.

COLLEAGUE PROFILE **Katy Bush, Trainee Solicitor**

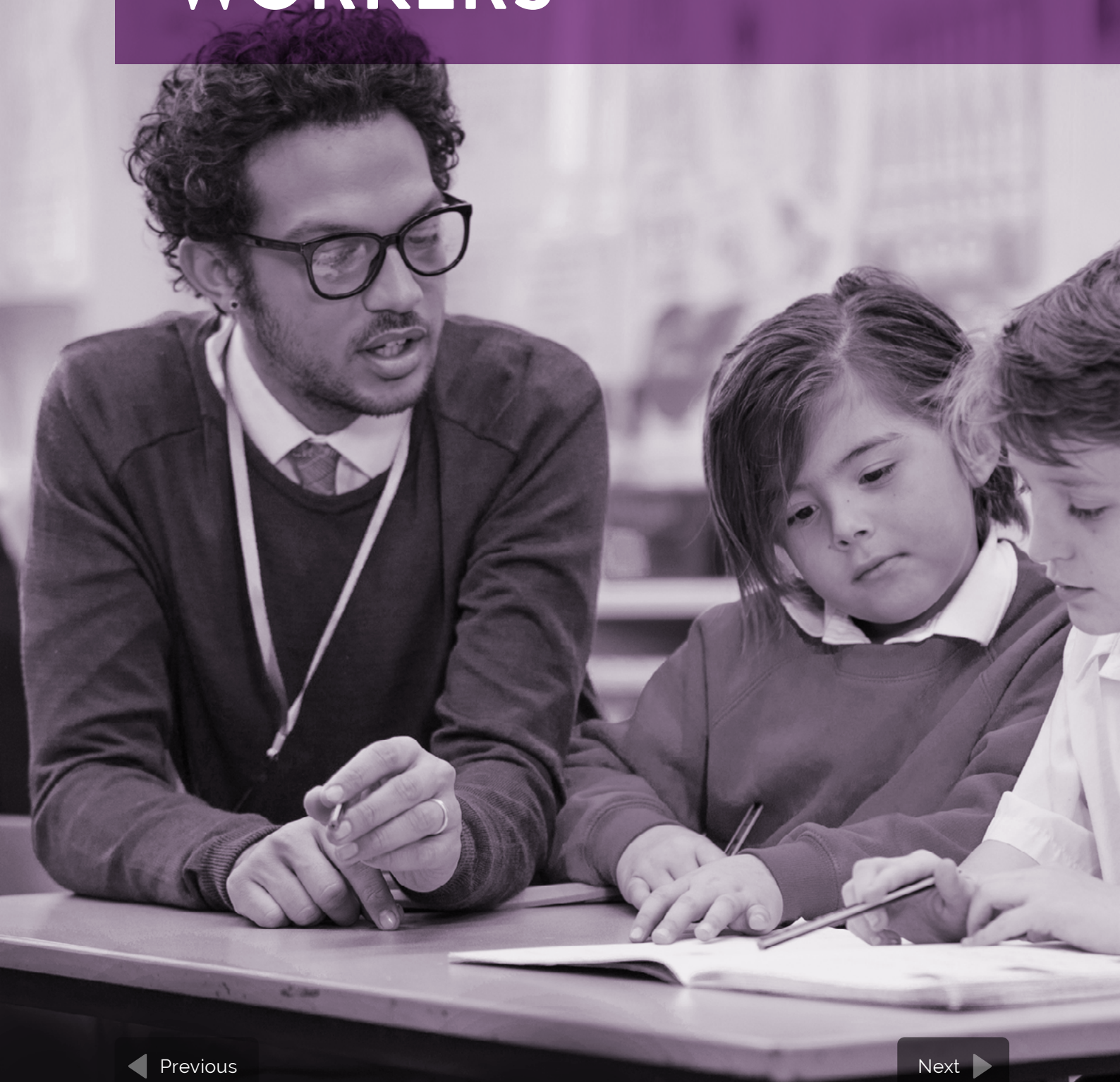
Katy initially joined LPF as a Trainee Solicitor on a six-month secondment from City of Edinburgh Council in March 2019. She returned on a permanent basis in March 2020 and starts as Legal Counsel in September 2020 when she qualifies. She says:

"My role is extremely varied but primarily I provide legal support to the Investment and Employer teams. There are lots of reasons I enjoy working at LPF – the work is really varied and interesting, the environment is friendly and inclusive, and I've always been motivated to use my legal skills to provide a public benefit."





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**932 PUPIL SUPPORT
WORKERS**





FINANCIAL PERFORMANCE

Administration expenses

A summary of the Fund's administrative expenditure for 2019/20, 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 £31,812k against the budget of £32,951k represented an underspending of £1,139k (3.5%) for the Fund.

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

- **Employees – £537k underspending.** Following an organisational design review earlier in the year, recruitment delays led to an underspending. Most of these vacant posts have now been filled.
- **Supplies and Services – £526k underspending.** Budgetary provision for the investment front-office trading system, specifically property management functionality and additional user licences, didn't need to be fully utilised.
- **Other third-party payments – £147k underspending.** The provision for co-investment broken deal costs did not require to be called upon.
- **Support Costs – £285k underspending.** Contingency provision had been made in respect of full procurement of enhanced ICT provision. Formal procurement was initiated later than originally anticipated and therefore outlays were deferred. Appointment of an ICT provider is expected later in the financial year 2020/21.
- **Income – £322k under-recovery.** Budgeted income included anticipated receipts from collaborative partners for asset management services, following requisite FCA approval. This has been delayed until the 2020/21 financial year.

	Approved budget	Actual outturn	Variance
	£000	£000	£000
Employees	5,354	4,817	(537)
Transport and premises	255	289	(5)
Supplies and services	2,128	1,602	(526)
Investment managers fees*	24,900	24,932	32
Other third-party payments	1,439	1,292	(147)
Capital funding - depreciation	147	154	7
Direct Expenditure	34,223	33,047	(1,176)
Support costs	643	358	(285)
Income	(1,915)	(1,593)	322
Total net controllable cost to LPF	32,951	31,812	(1,139)

*Does not include performance element. In 2019/20, £2.9m was paid in fees in relation to the Fund's private market investments.



FINANCIAL PERFORMANCE

Reconciliation to total costs	Actual outturn
	£000
Actual outturn on budgeted items above	31,812
Add: Securities lending revenue included in income above	577
Investment management fees deducted from capital – performance related element	2,933
IAS19 LPFE retirement benefits	(77)
LPFE deferred tax on retirement benefits	(31)
Corporation tax	(9)
Total cost to LPF (inclusive of full cost investment management fees)	35,205
Per fund accounts	
Lothian Pension Fund Group	35,126
Scottish Homes Pension Fund	79
Total	35,205

Cash-flow

Cash-flow 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 25 March 2020, 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.



FINANCIAL PERFORMANCE

LOTHIAN PENSION FUND

	2019/20 Projected	2019/20 Accruals basis	2019/20 Cash Basis
Income	£'000	£'000	£'000
Contributions from Employers	194,000	184,818	189,125
Contributions from Employees	50,000	49,508	50,705
Transfers from Other Schemes	5,000	6,036	6,036
	249,000	240,362	245,866
Expenditure			
Pension Payments	(180,000)	(179,229)	(179,229)
Lump Sum Retirement Payments	(70,500)	(65,809)	(68,077)
Refunds to Members Leaving Service	(750)	(723)	(723)
Transfers to Other Schemes	(36,000)	(30,660)	(30,660)
Administrative expenses	(2,500)	(2,521)	(2,521)
	(289,750)	(278,942)	(281,210)
Net Additions/(Deductions) From Dealings with Members	(40,750)	(38,580)	(35,344)

**Does not include performance element. In 2019/20, £3.1m was paid in fees in relation to the Fund's private market investments.*

LPF continued to experience a net reduction in value from our dealings with our members. This reduction increased by £24.1million in the year with outlays exceeding receipts by £38.6 million compared to £14.5million at 31 March 2019. It is worth highlighting that a majority of this increase was driven by the one off event of a bulk transfer of an employer, Barony Housing Association, to another scheme which accounted for £20.5million of the rise in outlays.



FINANCIAL PERFORMANCE

SCOTTISH HOMES PENSION FUND

	2019/20 Projected	2019/20 Accruals basis	2019/20 Cash Basis
	£'000	£'000	£'000
Income			
Administration charge	80	70	70
Expenditure			
Pension Payments	(6,545)	(6,653)	(6,653)
Lump Sum Retirement Payments	(655)	(625)	(666)
Transfers to Other Schemes	(100)	-	-
Administrative expenses	(80)	(45)	(45)
	(7,380)	(7,323)	(7,364)
Net Additions/(Deductions) From Dealings with Members	(7,300)	(7,253)	(7,294)

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 £7.3million representing a £1.7million change in position from 31 March 2019 (net withdrawals of £5.6million). 2018/19 figures do include the transfer of Homeless Action Scotland from Lothian Pension Fund to Scottish Homes which accounts for the £1.7m difference. Future cash flows are expected to be broadly consistent with 2019/20 figure going forward.

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



FINANCIAL PERFORMANCE

2017 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 2017. In general, the results showed that despite better than expected asset returns since the 2014 actuarial valuation, employer costs increased due to a reduction in future expected investment returns. The Funding Strategy Statement was reviewed and amended following consultation with employers.

For Lothian Pension Fund, the funding level increased from 91% at 31 March 2014 to 98% at this valuation. The deficit decreased from £417million at 31 March 2014 to £145million at 31 March 2017. Reflecting the differences in the employers in the Fund, a third investment strategy was introduced for employers which are closed to new entrants, but not close to exiting the Fund.

Lothian Pension Fund also introduced a requirement for 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 2017 was 104.7%, increased from 88.8% from the 2014 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.

The next triennial valuation for both Funds will be undertaken as at 31 March 2020. Member data will be supplied to the Actuary during Summer 2020, with results reported later in the financial year 2020/21.





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



FINANCIAL PERFORMANCE

to CIPFA, Audit Scotland and the Scottish Local Government Pension Scheme Advisory Board (SLGPSAB), the Committee's and Convener'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".

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.



FINANCIAL PERFORMANCE

	Lothian Pension Fund		Scottish Homes Pension Fund	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Investment management expenses in compliance with CIPFA guidance	31,041	31,704	84	104
Investment management expenses per financial statements	36,102	32,659	84	104
Disclosure in excess of CIPFA guidance	5,061	955	0	0

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. This is the reason for the much lower disclosure in excess of CIPFA guidance in 2019/2020 (£955K), compared to the previous year (£5,061K). This trend is expected to continue for Lothian Pension Fund. Crucially, however, 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.



FINANCIAL PERFORMANCE

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 332 pension funds representing £7.2 trillion in assets. To provide a fair 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 2019) showed that LPF's investment costs of 0.39% of Fund assets were significantly lower than CEM's benchmark cost of 0.49%, an equivalent annual saving of approximately £7.0m. 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.

WHAT OUR MEMBERS SAY:

'I feel very privileged and fortunate to be a member.'





PERFORMANCE AND ADMINISTRATION

Key Performance Indicators 2019/20

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 focused 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.

2018/2019		Target	2019/2020
Retained	Maintain Customer Service Excellence Standard (CSE) (Annual assessment)	Retain	*outcome pending
Met	Audit of Annual Report and Accounts 2019/20	Unqualified opinion	Met
100%	Proportion of members receiving a benefit statement by August	100%	100%
92.7%	Overall satisfaction of employers, active members and pensioners measured by surveys	92%	96.0%
99.7%	Percentage by value of pension contributions received within 19 days of end of month to which they relate	99%	99.5%
Met	Investment performance and Risk of Lothian Pension Fund over a rolling five-year period	Meet benchmark	Not met
Met	Monthly pension payroll paid on time	Met	Met
3.9%	Level of sickness absence	4.0%	2.85%
100%	All colleagues complete at least two days training per year	Yes	100%
69%	Colleague engagement index	Greater than 70%	69%

* Due to the Coronavirus outbreak the assessment to be held in March 2020 was postponed and will take place as soon as circumstances allow.



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PERFORMANCE AND ADMINISTRATION

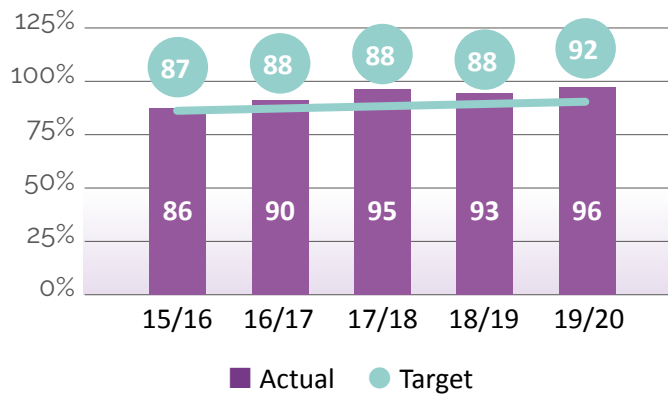
Value for Money

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 several 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 of the investment and administrative teams to enhance customer satisfaction
- Sharing of information and ideas with peers
- A review of performance trends over time.

OVERALL SATISFACTION





PERFORMANCE AND ADMINISTRATION

The outputs and analyses have served to supplement internal performance management information. However, the Chartered Institute of Public Finance and Accountancy (CIPFA) has stated that, to protect its commercial interests, its benchmarking reports "cannot be put in the public domain. It is for internal uses only within the authority . . . and for contacting and communicating with other members of the club." We're therefore unable to include full information on the results in the Annual Report.



A summary of the benchmarking, based on 2018/19 data as reported to Pensions Committee in December 2019, is below:

- Lothian Pension Fund's cost per member of £22.09 falls within the very wide range of local authority funds of c£13 to £48. However, the cost is higher than the average of all funds of £21.34
- The composition of a fund's membership impacts costs. Active members represent 39.4% of the Fund membership compared with an average of 32.7%, and pensioners represent 29.9% compared with 25.5%, which means that deferred members represent a lower proportion of membership (23.6%) than the typical fund (30.5%). As deferred members are less demanding on administration services, these factors would tend to increase pension administration and payroll workload and therefore cost
- The proportion of colleagues holding relevant pension administration qualifications is significantly higher than the average (more than double)
- In addition, the Fund's administration performance is above average for 10 of the 13 industry standard indicators in certain instances, by a considerable margin.

The Fund participated in the pension administration survey carried out by CEM for the first time in 2019 to gain further insight into pension administration cost and quality of service.

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 significantly larger size. CEM's benchmarking results categorised the Fund's pension administration service as "low cost; high service standard".



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 2019/20 remains above the 92% target at 96.0%.

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 17,782 processes in 2019/20 and there were very few complaints made, less than 0.01%. Complaints covered a broader range of issues including taking small pensions as a cash lump sum and the time it took to pay a Cash Equivalent Transfer Value to new pension providers.

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 2019/20, there were four stage 1 disputes for investigation. If a member remains dissatisfied with the Stage 1 decision, they have six months to take their appeal to Stage 2. In 2019/20, there was one Stage two dispute and one remaining from 2018/19, both of which are included in the statistics below.

Reason for dispute	Stage 1 outcome	Stage 2 outcome	On-going
Transfer of Employment Protection of Undertakings (TUPE) transfer/protected Normal Retirement Date (NRD)	1 not upheld – complaint rested with SPPA	1 upheld	0
Overpayment	1	1 not upheld	0
Awards, e.g. early payment of deferred pension on health grounds	3	3 not upheld	0

Further information about the IDRP and complaints procedure is available on our website at www.lpf.org.uk/aboutus.



PERFORMANCE AND ADMINISTRATION

Our data

We issued 100% of benefit statements by the statutory deadline of 31 August 2019. This is the second year in a row we've achieved this target set by the Pensions Regulator in 2015. Previous years saw us achieve 99%.



We measure our pension record keeping standards against the Pension 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 the Fund's employer data portal. The Fund audits the submissions to ensure the continuation of data accuracy.

The Fund utilises 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 Pension Regulator for the 2019 annual scheme return. Lothian Pension Fund and Scottish Homes Pension Fund scored 98.3% and 96.5% respectively for common data and 95.4% and 96.7% for conditional data. The quality of data continues to be considered to be of a high standard.

COLLEAGUE PROFILE **Steph Duddy, People Business Partner**

Steph joined LPF in September 2019 as our People Business Partner. Steph's responsible for providing guidance to drive the delivery of the HR and people plans, including recruiting and development for our colleagues. Steph says:

"The favourite aspect to my role is helping to develop our colleague give them the skills to deliver great service for our members. The people and culture are what makes LPF a great place to work."





PERFORMANCE AND ADMINISTRATION

Guaranteed Minimum Pension (GMP)

Following the end of contracting-out of the Second State Pension (S2P) on 5 April 2017, HMRC committed to sending a statement to all individuals affected stating the amount of Guaranteed Minimum Pension (GMP) they'll receive and who is responsible for paying it. As implied, GMP is the underpin that guarantees benefits will be no lower than the additional state pension, a member would have accrued had their pension not contracted out. As different levels of indexation are applied to the GMP element of a member's pension compared to the balance, any incorrectly calculated GMPs can result in over or underpayment of benefits. The UK Government's deadline for pension schemes to reconcile the GMP values they hold for members with those calculated by HMRC was 31 March 2019.

As reported previously, the Fund reconciled GMP values held for its members with those calculated by HMRC, to within the accepted tolerance of £2 per week, by the statutory deadline of 31 March 2019. In total, 120 members were identified who had been underpaid GMP. This resulted in arrears of £37,597.90, which was paid in June 2019. Requisite increases to ongoing annual pensions totalled £4,028.

In respect of overpayments, the Local Government Pension Scheme (Increased Pension Entitlement) (Miscellaneous Amendments) (Scotland) Regulations 2019, provide that pensions currently in payment will remain unadjusted going forward. The Fund has calculated an annual total of such pension overpayment of £73,624.32, across 572 members' records, that is an average of £128.71 per member.



McCloud judgement

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.

The Scottish Government is considering what this means for the LGPS and a remedy is expected later this year. Protection will compare the benefits payable under the current rules with the entitlements which would have been paid if the Scheme had not changed in 2015 and pay the higher. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action.



PERFORMANCE AND ADMINISTRATION

Many members benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced. However, as the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementing the remedy is expected to be extremely challenging from an administration perspective.

Pension administration

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. Despite the challenging environment, 93.53% of key procedures in 2019/20 were completed in target. However, in other areas, some delays were experienced while this key work was prioritised.

The table below shows the number and type of retirements in 2019/20.

Reason for dispute	Ill health	Early-age 60 to NPA	Early-age 55 to 59	Redundancy	Efficiency	Late	TOTAL
Lothian Pension Fund	118	907	140	115	61	165	1506
Scottish Homes Pension Fund	0	21	0	0	0	0	21



PERFORMANCE AND ADMINISTRATION

The table below shows performance against key procedures in 2019/20.

2018/19		Target	2019/20
92.2%	Proportion of critical pensions administration work completed within standards – individual performance within this indicator are shown below	Greater than 91%	93.53%
96.7%	Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	90%	97.64%
97.5%	Pay lump sum retirement grant within seven working days of receiving all the information we need from the member	95%	98.84%
97.2%	Acknowledge of the notification of the death of a member to next of kin within five working days.	95%	97.62%
100%	Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	95%	100%
81.7%	Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service.	90%	97.83%
73.6%	Proportion of non-key procedures completed within standard including Additional Regular Contributions, responding to member communications, updating nominations and maintaining the member database.	75%	75.18%
98.3%	Notification of dependant benefits within five working days of receiving all necessary paperwork	95%	92.81%
97.2%	Payment of CETV within 20 working days of receiving all completed transfer out forms	95%	94.75%
80.4%	Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider.	95%	64.21%
77.0%	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.	80%	77.29%
87.7%	Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form.	90%	89.25%
82.3%	Estimate requested by employer of retirement benefits within 10 working days	90%	82.63%
92.7%	Pay any lump sum death grant within seven working days of receipt of the appropriate documentation	95%	90.76%



PERFORMANCE AND ADMINISTRATION

We also participate in the National Fraud Initiative which is a data matching exercise led by Audit Scotland and is carried out every two years. The 2018/19 data match against current pensioners and deferred pensioners identified 31 and 13 deaths respectively, that hadn't been reported. The total overpayment for current pensioners amounted to £52,026 and recovery is in progress.

In 2019/20, the total value of pension overpayments written off under delegated authority (overpayments up to £3,000) between 1 September 2018 – 31 August 2019 was £7,888.

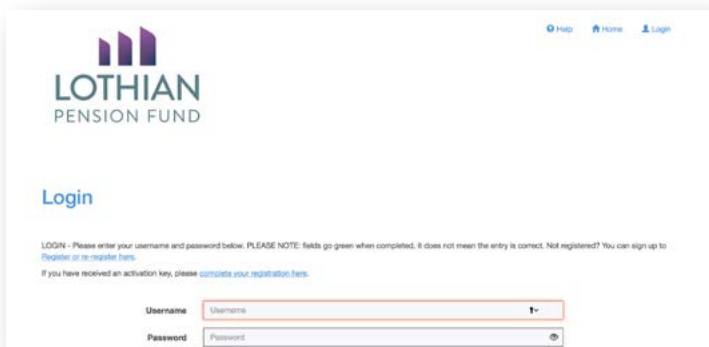
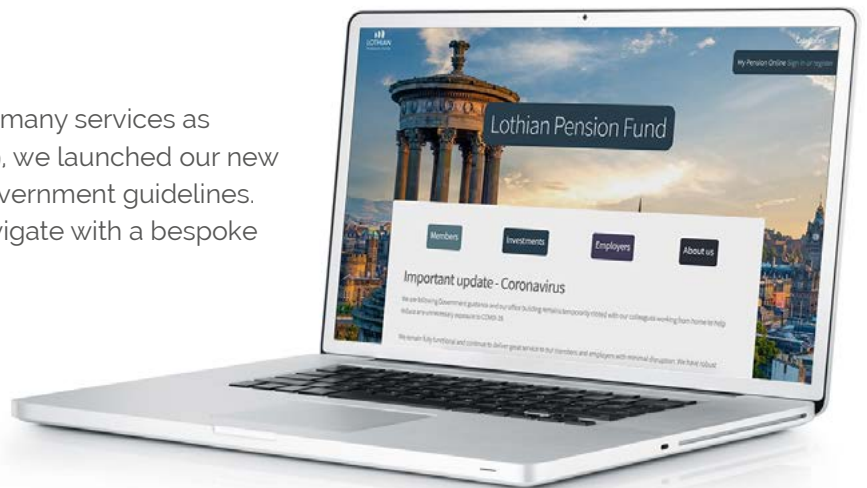
Online services

LPF is moving towards providing as many services as possible digitally. In December 2019, we launched our new accessible website to meet new Government guidelines. The website is clear and easy to navigate with a bespoke member area.

The My Pension Online service provides members with easy access to their personal information and we continue to investigate ways to improve the customer experience and services for our members.

Enhancements to our digital service have allowed us to provide retirement estimates and member documentation online, enable secure upload of documents to the Fund and completion of forms online.

We recently changed our refund process so now members can view, complete and return the forms and documents securely, all within our digital service.



We also introduced online payslips and P60s for all our members. 8,427 members (26.3% of existing pensioners) who were signed up to the digital service at the end of February no longer receive paper copies of their payslips or P60s.

All new pensioner members are automatically designated to receive electronic payslips and P60s, but they'll be given the option to retain paper service if that's their preference. We'll issue further communications to persuade existing pensioners to sign up to the online service.



PERFORMANCE AND ADMINISTRATION

Information for members is also available via email, phone and in person by visiting our office. We currently have 30,000 members registered for the online service with 44% of all active members being registered and we're continuing to work to increase these numbers.

Our employers provide monthly contribution returns via a portal that allows data to be automatically uploaded to the pension software system. This has significantly improved the provision of employer data and allowed for the automation of tasks that were previously done manually.

Unclaimed Monies Account

When a member leaves the Fund with less than two years membership they're entitled to a refund or transfer to another pension provider. Where we don't receive a response to any of our correspondence, we record these as 'Status 3: Exit – No liability' with a marker as unclaimed. At 1 April 2019 the unclaimed amount was £909,056 with 2,527 records with the unclaimed marker and on 1 April 2020 the figure was £914,306 with 2,571 unclaimed records.

Over the year we wrote to over 1,200 members reminding them of their options and we'll continue this work over the next 12 months by sending a reminder letter to those that haven't replied.

Although the unclaimed members and monies remain around the same level, new members who don't reply become unclaimed.

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.



PERFORMANCE AND ADMINISTRATION

Since the strategy was introduced, provision of early leaver and retiral information from employers has been well below the expected standard. This is despite our LPF officers taking a variety of approaches to improve employer performance, including:

- Providing training to payroll/HR colleagues
- Presenting performance updates at employer seminars and user groups
- Escalating to senior officers at annual employer meetings
- More frequent meetings and monitoring with employers where performance has been particularly poor.

To improve service to members, indirect costs can now be recovered from an employer should there be any persistent and ongoing administration failure occurs, with no improvement demonstrated or unwillingness to resolve the identified issues.

The Fund monitors employer performance against the standards set out in the Pension Administration Strategy. Results are reported to employers by way of an annual performance report, with more regular reporting for larger employers.

Overall employer performance for 2019/20 is shown below, with 2018/19 shown for comparison purposes.

Case type	Target (working days)	2018/19			2019/20		
		Number received	Number within target	% within target	Number received	Number within target	% within target
New members	20	4,379	N/A	N/A	7,489	4,554	61%
Leavers	20	3,628	1,715	47%	3,632	1,450	40%
Retirements	20	1,249	488	39%	1,374	512	37%
Deaths in Service	10	11	7	64%	16	10	63%



PERFORMANCE AND ADMINISTRATION

Reconciliation of data in Q1 affected the performance indicator for new starters significantly. The performance of our largest employers improved from Q2 onwards.

Whilst the provision of leaver information within target has decreased and the majority were received out of target, a huge amount of effort this year has gone into targeting historical cases. We continue to provide missing leaver queries to employers monthly and are confident that employers can focus on 'business as usual' cases in 2020/21.

Most retirement information continued to be provided out of target. 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 50% are received after the member's retirement date.

Employer	Number of late payments	Employer	Number of late payments
Scotland's Learning Partnership	5	Bellrock	1
Freespace Housing	3	Citadel Youth Centre	1
Visit Scotland	3	Hanover Housing Association	1
Granton Info Centre	3	Heriot Watt University	1
Edinburgh Cyrenians Trust	2	Pilton Equalities Project	1
Enjoy East Lothian	2	West Lothian College	1
Four Square	1	Edinburgh Festival Society	1
Edinburgh Development Group	1		
TOTAL			27

99.74% of contributions by value were paid on time. Of the 976 payments made, 27 were paid later than the 19th and these are shown in the table. The option to levy interest on overdue contributions was not exercised in 2019/20 as late contributions weren't received significantly later than the 19th.



PERFORMANCE AND ADMINISTRATION

Scotland's Learning Partnership

On 26 April 2019, the Scottish Public Pensions Agency (SPPA) advised that "Ministers have agreed that Scottish Government will provide a guarantee in respect of the liabilities for the staff from the former Community Learning Scotland who transferred to the Local Government Pension Scheme". This guarantee was signed on 3 June 2019.

Following the guarantee, Scotland's Learning Partnership received an updated valuation result with amended contribution rates and has agreed to settle an outstanding secondary rate payment by March 2022 via instalments. Whilst this means that the Fund hasn't yet received the minimum contributions in full, as certified by the Fund Actuary, the level of outstanding secondary rate contributions is not deemed significant and the Fund isn't exposed to default risk, given the guarantee by the Scottish Government. We have advised the Scottish Public Pensions Agency of the position.

WHAT OUR MEMBERS SAY:



'I can absolutely say that the Lothian Pension Fund has changed our lives for the better. We're now in a brand new home and we're very comfortably off. It was without doubt the best decision I made when I joined this fund in 1982'



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.

This year we were delighted to reach number 68 in the Sunday Times Top 100 Not for Profit Companies 2020 and number 38 in the Best Companies to work for in Scotland.



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.

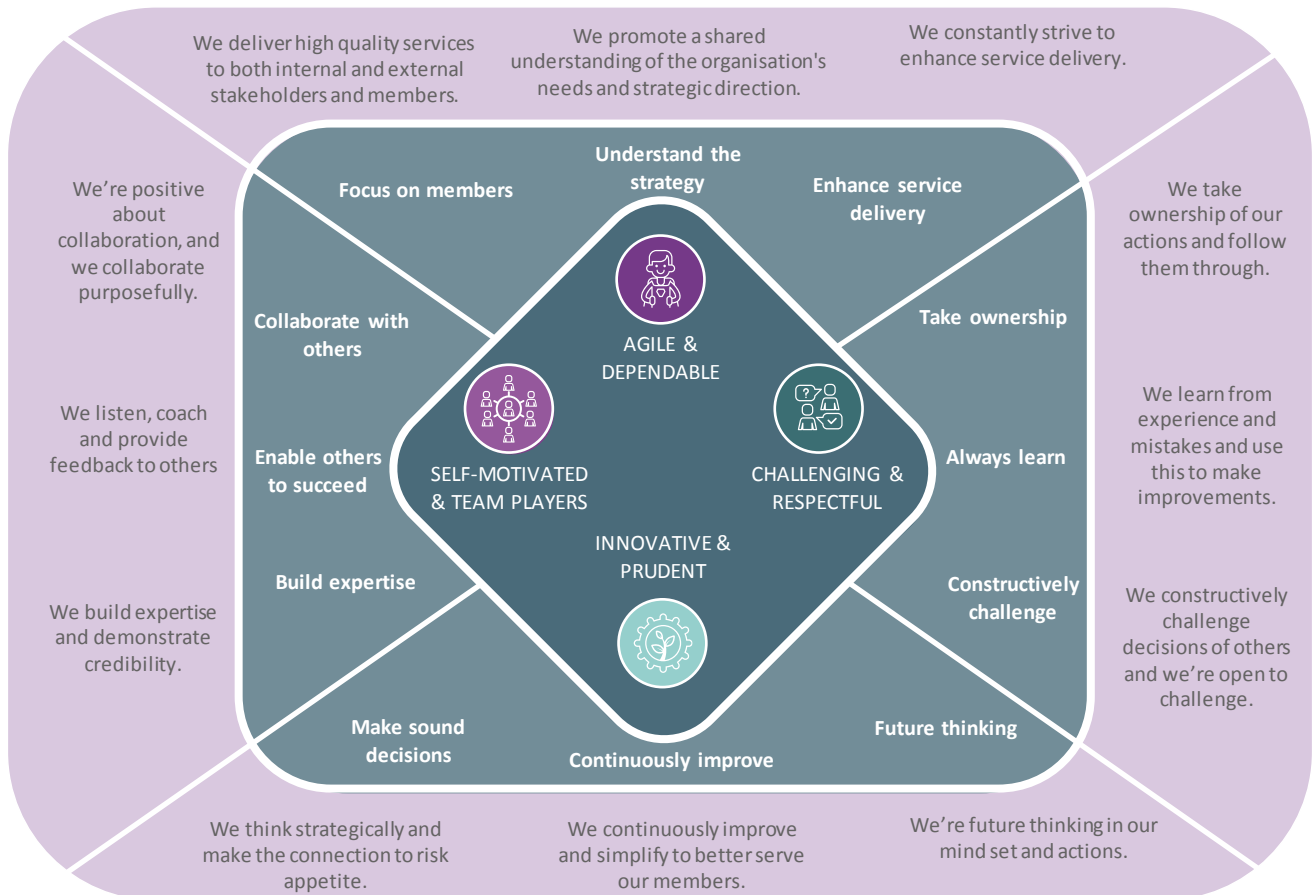
Inclusivity

We're one team, but we represent many ideas, experiences and backgrounds. We value everyone's contributions and believe that everyone 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 December 2019 our permanent headcount was 68; 53% female 47% 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:



OUR COLLEAGUES



- 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 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 focused on increasing diversity and inclusion in the asset management, professional services and financial services industries
- We helped launch 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



WE'RE PROUD TO SERVE
**558 SOCIAL
WORKERS**



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OUR COLLEAGUES

Gender Balanced

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

- As at 31 December 2019 we have, on aggregate, 35% women in our top three leadership layers. Over the year, we've increased our female management roles by three which equates to 33% women in our top three leadership layers
- Our mean gender pay gap is 36.15% (median: 4.33%) and the mean bonus pay gap is 43% (median 21%)
- 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. We're confident this approach is the right one and through time, it will help us achieve a better balance of diversity throughout the organisation. Between August and December 2019, we recruited seven colleagues, 57% of these were women, and all of these colleagues were recruited above median pay.



Performance and Reward

Our approach to performance management provides clarity for our employees about how their contribution links to our ambition and all our employees have goals set across a balanced scorecard of measures. We continue to ensure colleagues are paid fairly for the work they do and are supported by simple and transparent pay structures in line with industry best practices. We keep our HR policies and processes under review to ensure we do so.

This clarity and certainty on how we pay is also helping to improve our employees' financial wellbeing. Our rates of pay continue to exceed the Living Wage and we ensure employees performing the same roles are paid fairly. We make sure that colleagues have a common awareness of the financial and economic factors affecting LPF's performance through quarterly 'your FORUM' events led by our Group Chief Executive Officer and Senior Leadership Team. More information on our remuneration policies and employee share plans can be found later in this document.



OUR COLLEAGUES

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.

Professional standards are important to us and we offer a wide range of learning to support professional development. We work closely with a wide range of professional bodies, government agencies and our peers to maintain and grow professional standards across the industry.



Investing in Colleagues

We've also transformed our colleagues' experience by deploying new digital tools. Bamboo HR was implemented as a new digital HR platform in August 2019, and includes a mobile app, giving colleagues an experience on par with the digital experience our customers enjoy.

Health and Wellbeing

We firmly believe that colleague wellbeing is linked to a successful and happy workforce. We partner with a community enterprise initiative to source fruit baskets and make these available to colleagues to encourage healthy eating. 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' mental health very seriously and support mental health and wellbeing initiatives including Time to Talk Day, Purple Tuesday and we work with Enable to ensure that colleagues have the support, confidence and trust they need to talk about any concerns they may have.

Management commentary approved by:

Andrew Kerr

Chief Executive Officer
The City of Edinburgh Council
24 June 2020

Doug Heron

Chief Executive Officer
Lothian Pension Fund
24 June 2020

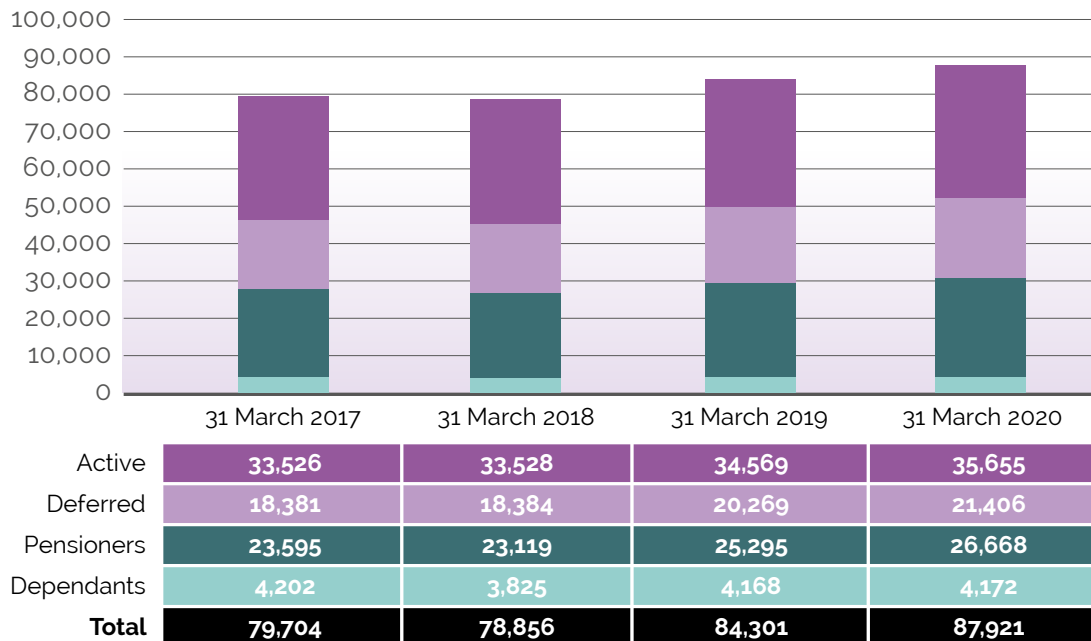
John Burns

Chief Finance Officer
Lothian Pension Fund
24 June 2020



LOTHIAN PENSION FUND ACCOUNTS

LOTHIAN PENSION FUND MEMBERSHIP



Homeless Action Scotland (HAS) ceased its membership of LPF with effect from 12 July 2018 and, following Ministerial Direction, its members transferred into the Scottish Homes Pension Fund. At the point of transfer, HAS had eleven deferred members, four pensioner members and one dependant member. The figures for 2019 have been adjusted to show this reduction. Further information on the transfer is shown in the Scottish Homes account section.

Investment Strategy

In order to provide suitable investment strategies for the differing requirements of employers, the Fund currently operates four investment strategies. Most employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and minimise the cost to the employer. The investment strategy is set at broad asset class or policy group levels, which are the key determinants of risk and return. These policy groups consist of Equities, Other Real Assets, Non-Gilt Debt, Gilts and Cash.

The Fund's (Main) investment strategy was approved by the Pensions Committee in December 2018. This adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer. The strategy retains significant exposure to real investments, such



LOTHIAN PENSION FUND ACCOUNTS

as Equities and Infrastructure, which have a history of protecting or enhancing purchasing power over the long term.

A small number of employers are funded in the Mature Employer Strategy, which invests in a portfolio of UK index-linked and nominal 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 1% 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 Employers Strategy. The liabilities funded by the 50/50 strategy represent a further 1% of total liabilities.

The Buses Strategy was introduced on 31 January 2019 when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund. In June 2019, the Committee agreed that the Buses Strategy should be adjusted in line with the investment strategy that it had previously approved for the Lothian Buses Pension Fund. With a maturing liability profile, the strategy reduced the risk / return profile of the assets over a five-year period. As the estimated funding level improved more quickly than expected, risk reduction was achieved during 2019/20 by reducing the equity allocation from 51.5% to 35% and increasing the allocation to gilts and non-gilt debt.

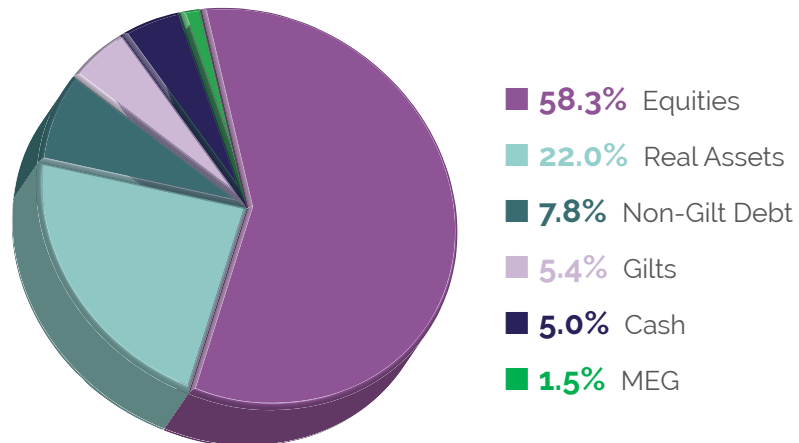
The table below presents total fund strategy, which is the weighted average of the four employer strategies also shown.

LOTHIAN PENSION FUND 31 March 2020	Main strategy	Mature Employer strategy	50/50 strategy	Buses strategy	Total fund strategy
Equities	65.0%	0.0%	32.5%	35.0%	62.0%
Real Assets	18.0%	0.0%	9.0%	18.0%	17.7%
Non-Gilt Debt	10.0%	0.0%	5.0%	20.0%	10.5%
Gilts	7.0%	100.0%	53.5%	27.0%	9.8%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100%	100%	100%	100%	100%



LOTHIAN PENSION FUND ACCOUNTS

ACTUAL ASSET ALLOCATION TOTAL FUND STRATEGY 31 MARCH 2020



A key objective of the Fund's investment strategy is to avoid unrewarded risk, and significant steps were taken more than six years ago to achieve this. The current equity strategy evolved by shifting from a regional to a global manager structure with a significant proportion of assets managed internally. The intention was to create relative stability appropriate to a long-term pension fund. The current equity investment strategy has remained broadly unchanged for several years now. With the structure of the equity exposure in more of a 'steady-state', there were no major changes over 2019/20.

Almost 85% of the Fund's listed equities are managed internally, with the majority of this in low cost, low turnover strategies which are expected to enhance the Fund's risk-adjusted returns over the long-term. The Fund also hedges exposure to the currencies of overseas listed equities with the explicit aim of reducing volatility rather than seeking to generate improved returns. The Fund therefore maintains exposure to currencies that are expected to reduce volatility, such as the US Dollar and Japanese Yen which tend to fall as equities rise, and hedge exposure to currencies that are expected to increase volatility, such as the Australian Dollar, which tends to rise as equities rise.

Over recent years, the Fund's strategy has been to increase the actual allocation to the Real Asset policy group, which includes investments in property, infrastructure and timber funds and assets. The long term and defensive nature of most of these assets provides an element of diversification to the overall investment strategy and the objective is to provide attractive risk-adjusted returns that are expected to be somewhat lower than listed equities over the long term. Most of these investments are unlisted and increasing exposure is dependent on sourcing attractive opportunities. The Fund's longstanding commitment to infrastructure investing has resulted in a large and diverse portfolio of real assets. The Fund's actual allocation has increased slightly this year from 20% to 22%. Almost 60% of this exposure is invested in infrastructure and approximately one third is investment in property. A small team of property professionals was recruited over 2019/20 to manage the commercial real estate portfolio, including both direct UK properties and indirect property investments.



LOTHIAN PENSION FUND ACCOUNTS

The Non-Gilt Debt allocation has been increasing in recent years as the Fund strives to improve diversification and secure returns in excess of gilt yields. The actual allocation was increased gradually over 2019/20 from 5.2% to 7.8% with additional commitments to private debt as well as the drawdown of existing commitments and new investments in investment grade corporate bonds. Given very low sovereign bond yields and historically low spreads in credit markets, the Fund remains below the long-term strategic allocation.

The Fund's allocation to Gilts declined over the year, from 9% to 7%, which is below the long-term strategy target of 10%. The risk associated with index-linked gilts was raised by the UK government plans to align RPI with CPI between 2025 and 2030 – this would have a meaningful detrimental impact on future returns, which are already negative in real terms and expensive in an international context – yields are relatively low and inflation expectations relatively high. The Fund retains exposure as index-linked gilts do provide diversification, some insurance against an unexpected rise in inflation and a return broadly in line with the Fund's liabilities.

Investment performance

The Fund's performance over the last year and over longer-term timeframes is shown in the table below.

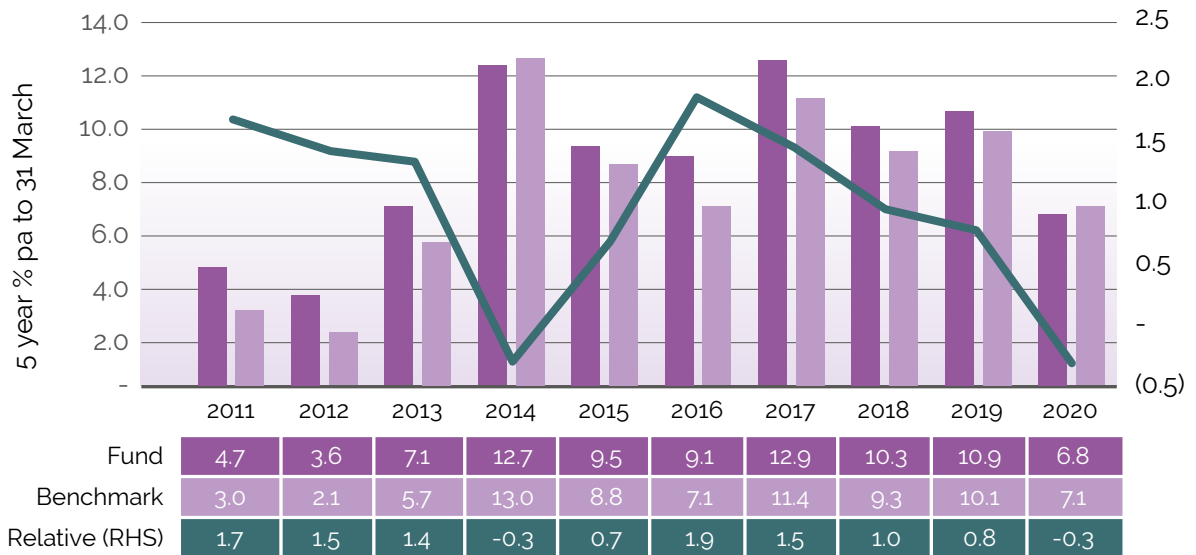
Annualised returns to 31 March 2020 (% per year)	1 year	5 years	10 years
Lothian Pension Fund	-3.6	6.8	8.1
Benchmark*	-0.2	7.1	7.9
Average Weekly Earnings (AWE)	1.5	2.4	2.0
Consumer Price Index (CPI)	1.5	1.7	2.0

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



LOTHIAN PENSION FUND ACCOUNTS

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



The investment objectives of the Fund are to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives 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. The Fund aims to achieve a return in line with its strategic benchmark allocation, over the long term, with a lower-than-benchmark level of risk.

The Fund return was relatively weak over the past year but remains broadly in line with its objective of meeting the strategic benchmark return over five and ten-year periods with lower risk. It should be noted that the Fund is not expected to behave like the benchmark in the short term for two main reasons: portfolios are not constructed to track the market capitalisation benchmarks and private market market benchmarks are not readily available nor assets well suited to short term measurement. UK CPI and Average Weekly Earnings have grown at low and relatively stable rates for many years, although liability values have grown faster than asset values as interest rates have almost reached zero.



LOTHIAN PENSION FUND ACCOUNTS

The Fund's focus on risk-adjusted returns and lower volatility has been broadly in place since 2013 involving a change in structure that included a greater focus on lower volatility equities. One way of assessing the success of the strategy is by measuring the direction of the Fund's performance when markets are increasing and decreasing. Over the period since the change in structure, the Fund's returns have been delivered with lower volatility than the benchmark.



From March 2015 to March 2020, the Fund performed:

- better than the strategic allocation when markets fell (19 out of 60 months) with average performance of 0.3% better than the strategic benchmark and,
- worse than the strategic allocation when markets were rising (41 out of 60 months) with average performance 0.2% behind the strategic benchmark demonstrating that the Fund is positioned relatively defensively, in line with strategy.

The Fund's independent performance measurement provider, Portfolio Evaluation, also reports that the Fund's annualised ex-post active risk has been lower than the strategic benchmark over the most recent five-year (7.3% vs. 8.0%) and ten-year (7.3% vs. 7.7%) periods.

COLLEAGUE PROFILE **Ruth Hunter, Investment Administrator**

Our investment Administrator Ruth has been with LPF for eight years. Ruth provides administrative support for the Investment team which is a varied role and includes co-ordinating the Fund's investment reporting cycle, preparing reporting data and co-ordinating data between our collaborating partners. Ruth says:

"The LPF team are all great to work with and I really enjoy the challenges of my role and the direction the Fund is moving in."





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LOTHIAN PENSION FUND ACCOUNTS

Fund Account for year ended 31 March 2020

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	
Restated 2018/19	Restated 2018/19		2019/20	2019/20	
£000	£000	Note	£000	£000	
Income					
175,672	175,672	Contributions from employers	5 /	184,818	184,818
47,416	47,416	Contributions from members	6	49,508	49,508
3,852	3,852	Transfers from other schemes	7	6,036	6,036
226,940	226,940			240,362	240,362
Less: expenditure					
167,962	167,962	Pension payments including increases	8	179,229	179,229
50,270	50,270	Lump sum retirement payments	9	58,809	58,809
5,542	5,542	Lump sum death benefits	10	7,081	7,081
720	720	Refunds to members leaving service		722	722
(82)	(82)	Premiums to State Scheme		1	1
14,754	14,754	Transfers to other schemes	11	30,660	30,660
2,281	2,530	Administrative expenses	12a	2,496	2,467
241,447	241,696			278,998	278,969
(14,507)	(14,756)	Net (withdrawals)/additions from dealing with members		(38,636)	(38,607)
Returns on investments					
190,975	190,975	Investment income	13	232,842	232,842
503,624	503,624	Change in market value of investments	15, 20b	(500,295)	(500,295)
(35,938)	(36,102)	Investment management expenses	12b	(32,827)	(32,659)
658,661	658,497	Net returns on investments		(300,280)	(300,112)
644,154	643,741	Net increase in the Fund during the year		(338,916)	(338,719)
7,175,080	7,173,722	Net assets of the Fund at 1 April 2019		7,819,234	7,817,463
7,819,234	7,817,463	Net assets of the Fund at 31 March 2020		7,480,318	7,478,744



LOTHIAN PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2020

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 2019	31 March 2019			31 March 2020	31 March 2020
£000	£000		Note	£000	£000
Investments					
7,788,872	7,788,872	Assets		7,444,652	7,444,652
(1,912)	(1,912)	Liabilities		(1,965)	(1,965)
7,786,960	7,786,960	Net investment assets	14	7,442,687	7,442,687
Non current assets					
3,457	3,457	Debtors	24	5,256	5,256
430	430	Computer systems		658	658
60	-	Share Capital		590	-
-	393	Deferred tax	29a	-	424
3,947	4,280			6,504	6,338
Current assets					
884	884	The City of Edinburgh Council	28	4,924	4,924
35,897	36,238	Cash balances	21, 28	38,168	39,038
22,345	22,568	Debtors	25	18,118	18,447
59,126	59,690			61,210	62,409
Non current liabilities					
-	(2,309)	Retirement benefit obligation	30	-	(2,232)
-	(13)	Creditors		-	(15)
-	(2,322)			-	(2,247)
Current liabilities					
(30,799)	(31,145)	Creditors	26	(30,083)	(30,443)
(30,799)	(31,145)			(30,083)	(30,443)
7,819,234	7,817,463	Net assets for the Fund		7,480,318	7,478,744

The unaudited accounts were issued on 24 June 2020 and the audited accounts were authorised for issue on XX September 2020.



LOTHIAN PENSION FUND ACCOUNTS

John Burns FCMA CGMA, PgC

Chief Finance Officer,
Lothian Pension Fund

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.





NOTES TO THE FINANCIAL STATEMENTS

1 Statement of Accounting Policies

The statement of accounting policies for both Funds can be found on page 157.

2 Prior Year Adjustment

Ministerial Direction – Homeless Action Scotland

The admission to Local Government Pension (LGPS) membership of Homeless Action Scotland (HAS) was terminated by Lothian Pension Fund (LPF) with effect from 12 July 2018. The Actuary to LPF calculated the liabilities that remained on cessation at £641,000. Following specific request by LPF, on 31 March 2020, the Scottish Ministers issued a direction to the effect that:

(a) Scottish Homes Pension Fund (SHPF) be substituted for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and that all assets and liabilities of Lothian Pension Fund relating to the Scheme employer are transferred to SHPF as at that date;

(b) with effect from 11 July 2018, City of Edinburgh Council, as the administering authority of SHPF, shall admit the Scheme employer as an admission body of SHPF; and

(c) the administering authority must by 30 June 2020 execute all documents and do all things necessary to complete the substitution of SHPF for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and the transfer of all assets and liabilities of Lothian Pension Fund relating to the Scheme employer to SHPF as at that date.

	2018/19 Audited	Adjustment	2018/19 Restated
	£000	£000	£000
Transfers to other schemes	13,028	1,726	14,754
Pension Payments	167,997	(35)	167,962
Administrative Expenses	2,532	(2)	2,530
Change in Market Value of Investments	503,734	(110)	503,624
Investment Assets	7,790,671	(1,799)	7,788,872



NOTES TO THE FINANCIAL STATEMENTS

3 Lothian Pension Fund Group

Basis of consolidation, presentation of financial statements and notes

Replace text with: The consolidation of the group accounts was prepared prior to the LPFE and LPFI boards approval of their respective audited financial statements for 2019/20. The figures used in the consolidation are therefore the unaudited financial statements.

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 LPFE and LPFI boards approval of their respective audited financial statements for 2019/20. The figures used in the consolidation are therefore the unaudited financial statements.



NOTES TO THE FINANCIAL STATEMENTS

4 Events after the Reporting Date

There have been no events since 31 March 2020, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

5 Contributions from employers

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

	2018/19	2019/20
By category	£000	£000
Primary Contribution (future service)	160,778	170,896
Secondary Contribution (past service deficit)	8,057	7,821
Strain costs	4,082	2,931
Cessation contributions	2,755	3,170
	175,672	184,818

	2018/19	2019/20
By employer type	£000	£000
Administering Authority	59,830	64,051
Other Scheduled Bodies	92,644	96,189
Community Admission Bodies	22,414	23,402
Transferee Admission Bodies	784	1,176
	175,672	184,818

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 and;
- 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.



NOTES TO THE FINANCIAL STATEMENTS

2018/19 contributions included a £107k accrual covering revised sums in respect of assumed pensionable pay due by City of Edinburgh Council in relation to the financial period 2015/16 to 2017/18. These payments were transferred to the Fund in the first quarter of 2019/20, however there may still be revisions to these figures that are yet to be monetised due to back dated pay awards.

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

6 Contributions from members

	2018/19	2019/20
By employer type	£000	£000
Administering Authority	16,437	17,508
Other Scheduled Bodies	24,507	25,295
Community Admission Bodies	6,217	6,375
Transferee Admission Bodies	255	330
	47,416	49,508

7 Transfers in from other pension schemes

	2018/19	2019/20
	£000	£000
Group transfers	-	-
Individual transfers	3,852	6,036
	3,852	6,036



NOTES TO THE FINANCIAL STATEMENTS

8 Pensions payable

	2018/19 restated	2019/20
By employer type	£000	£000
Administering Authority	76,932	80,152
Other Scheduled Bodies	75,860	82,455
Community Admission Bodies	14,958	16,383
Transferee Admission Bodies	212	239
	167,962	179,229

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. In order that such are not regarded as "unauthorised payments" by HMRC, these pension payments are met by the administering authority through a general fund bank account and recharged to the body or service which granted the benefits.

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.

The Fund has requested that responsibility for these "unfunded transfer payments" should transfer to the Scottish Public Pension's Agency (SPPA). A response from SPPA is awaited.

9 Lump sum retirement benefits payable

	2018/19	2019/20
By employer type	£000	£000
Administering Authority	17,374	19,335
Other Scheduled Bodies	27,818	31,809
Community Admission Bodies	5,053	7,420
Transferee Admission Bodies	25	245
	50,270	58,809



NOTES TO THE FINANCIAL STATEMENTS

10 Lump sum death benefits payable

	2018/19	2019/20
By employer type	£000	£000
Administering Authority	2,943	2,874
Other Scheduled Bodies	2,049	2,497
Community Admission Bodies	550	1,635
Transferee Admission Bodies	-	75
	5,542	7,081

11 Transfers out to other pension schemes

	2018/19 restated	2019/20
	£000	£000
Group transfers	1,726	20,504
Individual transfers	13,028	10,156
	14,754	30,660

Following a Direction from the Scottish Ministers, Barony Housing Association transferred to Strathclyde Pension Fund on 31 January 2020.

The data transfer was successfully carried out to allow payment of pensions from February 2020 onwards. The Actuary calculated the Bulk transfer amount to be £20,504,175 based on asset values at the transfer date and this sum was paid to Strathclyde Pension Fund on 24 March 2020. In summer 2020, once the actual investment returns for the period to the payment date are known, a post payment date adjustment will be calculated by the Actuary. If the resulting Bulk Transfer Value is higher than the amount paid on the Payment Date, Lothian Pension Fund will make a top up payment to the Strathclyde Pension Fund equal to the difference, or if the reverse should be the case, then Strathclyde Pension Fund will be required to make a corrective payment to the Lothian Pension Fund equal to the difference.



NOTES TO THE FINANCIAL STATEMENTS

12a Administrative expenses

	LPF Parent 2018/19	LPF Group 2018/19	LPF Parent 2019/20	LPF Group 2019/20
	£000	£000	£000	£000
Employee Costs	1,494	1,540	1,501	1,484
System costs	304	305	417	419
Actuarial fees	72	72	103	103
External/Internal audit fees	49	52	69	71
Legal fees	20	20	12	12
Printing and postage	111	111	152	152
Depreciation	45	45	34	34
Office costs	100	100	116	116
Sundry costs less sundry income	86	71	92	115
IAS19 retirement benefit adjustments - see note 30	-	249	-	(25)
Deferred tax on retirement benefit obligation - see note 29a	-	(42)	-	(10)
Corporation tax	-	6	-	(4)
	2,281	2,529	2,496	2,467

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.



NOTES TO THE FINANCIAL STATEMENTS

12b Investment management expenses

	LPF Parent 2018/19	LPF Group 2018/19	LPF Parent 2019/20	LPF Group 2019/20
	£000	£000	£000	£000
External management fees - invoiced	4,977	4,977	4,423	4,423
deducted from capital (direct investment)	17,657	17,657	16,772	16,772
deducted from capital (indirect investment)	5,062	5,062	955	955
Securities lending fees	189	189	115	115
Transaction costs - Equities	1,498	1,498	2,479	2,479
Property operational costs	2,615	2,615	3,121	3,121
Employee costs	2,075	2,165	2,560	3,251
Custody fees	356	356	390	390
Engagement and voting fees	114	114	119	119
Performance measurement fees	92	92	94	94
Consultancy fees	125	125	71	71
Research fees	329	329	462	462
System costs	441	442	555	559
Legal fees	134	137	201	267
Depreciation	16	16	118	118
Office costs	76	76	127	127
Sundry costs less sundry income	182	(57)	265	(586)
IAS19 retirement benefit adjustments - see note 30	-	345	-	(52)
Deferred tax on retirement benefit obligation - see note 29	-	(59)	-	(21)
Corporation tax	-	23	-	(5)
Corporation tax losses utilised by CEC group	-	-	-	-
	35,938	36,102	32,827	32,659

Investment costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three 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).



NOTES TO THE FINANCIAL STATEMENTS

The external investment management fees (deducted from capital) above include £2.9m (£2.8m direct, £0.1m indirect) in respect of performance-related fees compared to £8.5m in 2018/19 (£6.1m direct, £2.4m indirect).

It should be noted that Lothian Pension Fund's disclosure on investment management fees exceeds CIPFA's Accounting for Local Government Pension Scheme Management Costs revised guidance on cost transparency which came into effect from 1st 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 £1m in costs (2019 £5.1m).

12c Total management expenses

In accordance with CIPFA guidance, the analysis below considers the combined administration and investment management expenses in notes 12b and c and splits out the costs to include a third category covering oversight and governance expenditure.

	LPF Parent 2018/19	LPF Group 2018/19	LPF Parent 2019/20	LPF Group 2019/20
	£000	£000	£000	£000
Administrative costs	1,988	2,176	2,255	2,251
Investment management expenses	34,422	34,629	30,403	30,128
Oversight and governance costs	1,811	1,829	2,665	2,747
	38,221	38,634	35,323	35,126



NOTES TO THE FINANCIAL STATEMENTS

13 Investment income

	2018/19	2019/20
	£000	£000
Income from bonds	4,483	3,526
Dividends from equities	159,953	163,388
Unquoted private equity and infrastructure	5,005	40,419
Income from pooled investment vehicles	2,432	3,134
Gross rents from properties	23,501	23,914
Interest on cash deposits	2,156	2,213
Stock lending and sundries	943	577
	198,473	237,171
Irrecoverable withholding tax	(7,498)	(4,329)
	190,975	232,842

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 is assumed that the Fund will make full recovery of these reclaims. For the period of 2019/20 £7,673k of the stated income relates to tax yet to be received. At the 31st March 2020 £14,900k (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.



14 Net investment assets	Region	Restated 31 March 2019	31 March 2020
Investment assets		£000	£000
Bonds			
Public sector fixed interest	UK	158,219	-
Public sector index linked gilts quoted	UK	695,412	457,536
		853,631	457,536
Equities			
Quoted	UK	641,038	569,679
Quoted	Overseas	3,918,803	3,627,410
		4,559,841	4,197,089
Pooled investment vehicles			
Private equity, infrastructure, private debt & timber	UK	616,556	705,173
Private equity, infrastructure, private debt & timber	Overseas	633,487	690,020
Property	UK	90,358	86,954
Other	UK	31,978	174,366
		1,372,379	1,656,513
Properties			
Direct property	UK	411,978	367,494
		411,978	367,494
Derivatives			
Derivatives - forward foreign exchange		3,025	15,228
		3,025	15,228
Cash deposits			
Deposits		569,190	681,472
		569,190	681,472
Other investment assets			
Due from broker		1,037	44,128
Dividends and other income due		17,791	25,176
		18,828	69,304
Total investment assets		7,788,872	7,444,636
Investment liabilities			
Derivatives			
Derivatives - forward foreign exchange		(854)	(22)
		(854)	(22)
Other financial liabilities			
Due to broker		(1,058)	(1,927)
		(1,058)	(1,927)
Total investment liabilities		(1,912)	(1,949)
Net investment assets		7,786,960	7,442,687



NOTES TO THE FINANCIAL STATEMENTS

15a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2019*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2020*
	£000	£000	£000	£000	£000
Bonds	853,631	338,698	(777,727)	42,934	457,536
Equities	4,559,841	1,638,264	(1,372,045)	(628,971)	4,197,089
Pool investment vehicles	1,372,379	448,073	(253,708)	(89,769)	1,656,513
Property	411,978	2,571	(22,304)	(24,751)	367,494
Derivatives - futures	-	-	-	-	-
Derivatives - forward foreign exchange	2,171	12,606	(4,382)	4,811	15,206
	7,200,000	2,440,212	(2,430,166)	(516,208)	6,693,838

Other financial assets / liabilities

Cash deposits*	569,190			15,921	681,472
Broker balances*	(21)			(8)	42,202
Investment income due*	17,791			-	25,175
	586,960			15,913	748,849
Net financial assets	7,786,960			(500,295)	7,442,687

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.



NOTES TO THE FINANCIAL STATEMENTS

	Market value at 31 March 2018*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2019*
	£000	£000	£000	£000	£000
Bonds	736,478	227,909	(152,586)	41,830	853,631
Equities	4,287,464	1,090,848	(1,122,578)	304,107	4,559,841
Pool investment vehicles	1,264,553	219,829	(261,125)	149,122	1,372,379
Property	392,743	21,290	-	(2,055)	411,978
Derivatives - futures	-	30	(30)	-	-
Derivatives - forward foreign exchange	11,917	8,223	(12,199)	(5,770)	2,171
	6,693,155	1,568,129	(1,548,518)	487,234	7,200,000

Other financial assets / liabilities

Cash deposits*	426,380	16,376	569,190
Broker balances*	(2,211)	14	(21)
Investment income due*	17,163	-	17,791
	441,332	16,390	586,960
Net financial assets	7,134,487	503,624	7,786,960

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

15b Reconciliation of fair value measurements within level 3

	Market value at 31 March 2019	Level 3 transfers		Purchases at cost & derivative payments	Sale & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2020
	£000	in	out	£000	£000	£000	£000	£000
Pooled investments								
Infrastructure	844,860			176,081	(170,304)	(13,750)	98,683	935,570
Property	48,983	-	-	33	(826)	(2,105)	442	46,527
Private Equity	76,159			1,642	(22,790)	(10,154)	18,017	62,874
Timber	124,028			-	(563)	6,043	199	129,707
Private debt	204,996	-	-	89,399	(30,706)	3,841	(491)	267,039
Freehold property	411,978	-	-	2,571	(22,303)	(34,917)	10,165	367,494
	1,711,004	-	-	269,726	(247,492)	(51,042)	127,015	1,809,211

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.



NOTES TO THE FINANCIAL STATEMENTS

16 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2020

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	63,581	116,121	6,274	-
Up to one month	CAD	GBP	138,338	228,396	8,948	-
One to six months	CHF	USD	812	835	-	(22)
One to six months	USD	CHF	3,238	3,148	6	-
Open forward currency contracts at 31 March 2020					15,228	(22)
Net forward currency contracts at 31 March 2020						15,206

Prior year comparative

Open forward currency contracts at 31 March 2019	3,025	(854)
Net forward currency contracts at 31 March 2019		2,171

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

In order 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.



17 Investment managers and mandates

Manager	Mandate	Market value	% of total	Market value	% of total
		at 31 March 2019 Restated	31 March 2019 Restated	at 31 March 2020	31 March 2020
		£000	%	£000	%
In-house	UK all cap equities	144,692	1.9	212,547	2.9
In-house	UK mid cap equities	121,698	1.6	91,095	1.2
Total UK equities		266,390	3.5	303,642	4.1
In-house	European ex UK equities	125,418	1.6	197,939	2.7
In-house	US equities	160,148	2.1	202,460	2.7
Total regional overseas equities		285,566	3.7	400,399	5.4
In-house	Global high dividend	1,006,587	12.9	1,016,988	13.7
In-house	Global low volatility	1,249,276	16.1	980,951	13.2
In-house	Global multi factor value	993,535	12.8	899,426	12.1
Harris	Global equities	278,794	3.6	177,602	2.4
Nordea	Global equities	306,617	3.9	290,006	3.9
Baillie Gifford	Global equities	123,103	1.6	121,808	1.6
Total global equities		3,957,912	50.9	3,486,781	46.9
In-house	Currency hedge	1,925	-	15,222	0.2
Total currency overlay		1,925	-	15,222	0.2
Total listed equities		4,511,793	58.1	4,206,044	56.6
In-house	Private equity unquoted	76,159	1.0	62,875	0.8
In-house	Private equity quoted	78,382	1.0	65,591	0.9
Total private equity		154,541	2.0	128,466	1.7
Total equity		4,666,334	60.1	4,334,510	58.3
In-house	Index linked gilts	595,360	7.6	400,458	5.4
In-house	Mature employer gilts	114,296	1.5	113,039	1.5
Total inflation linked assets		709,656	9.1	513,497	6.9
In-house	Property	35,421	0.5	86,954	1.2
Standard Life	Property	516,767	6.6	464,317	6.2
In-house	Infrastructure unquoted	844,860	10.8	935,570	12.6
In-house	Infrastructure quoted	24,819	0.3	26,087	0.4
In-house	Timber	124,029	1.6	129,707	1.7
Total real assets		1,545,896	19.8	1,642,635	22.1
Baillie Gifford	Corporate bonds	31,835	0.4	32,211	0.4
In-house	Private debt	204,996	2.6	267,039	3.6
In-house	Sovereign bonds	165,183	2.1	168,108	2.3
In-house	Investment Grade Credit	-	0.0	116,394	1.6
Total debt assets		402,014	5.1	583,752	7.9

**17 Investment managers and mandates (cont)**

Manager	Mandate	Market value at 31 March 2019 Restated	% of total 31 March 2019 Restated	Market value at 31 March 2020	% of total 31 March 2020
		£000	%	£000	%
In-house	Cash	462,976	5.9	367,144	4.9
In-house	Transitions	84	0.0	1,149	0.0
Total cash and sundries		463,060	5.9	368,293	4.9
Net financial assets		7,786,960	100.0	7,442,687	100.0

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

18 Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2020, £132.6m (2019 £407.2m) of securities were released to third parties. Collateral valued at 107.0% (2019 107.3%) of the market value of the securities on loan was held at that date.

19 Property holdings

	2018/19	2019/20
	£000	£000
Opening balance	392,743	411,978
Additions	21,290	2,096
Disposals	-	(22,303)
Net change in market value	(2,055)	(24,277)
Closing balance	411,978	367,494

As at 31 March 2020, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. As at 31 March 2020 the Fund is contractually obliged to further construction costs of £140k.

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

	2018/19	2019/20
	£000	£000
Within one year	23,257	17,886
Between one and five years	58,867	52,629
Later than five years	92,633	69,701
	174,757	140,216



NOTES TO THE FINANCIAL STATEMENTS

20 Financial Instruments

20a 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 is no difference between the carrying value and fair value.

Classification of financial instruments - parent	Restated 31 March 2019			Restated 31 March 2020		
	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	855,430	-	-	457,536	-	-
Equities	4,559,841	-	-	4,197,089	-	-
Pooled investments	1,372,379	-	-	1,656,513	-	-
Property Leases	2,284	-	-	-	-	-
Derivative contracts	3,025	-	-	15,228	-	-
Margin balances	-	-	-	-	-	-
Cash	-	569,189	-	-	681,472	-
Other balances	-	18,828	-	-	69,304	-
	6,792,959	588,017	-	6,326,366	750,776	-
Other assets						
City of Edinburgh Council	-	884	-	-	4,924	-
Cash	-	35,897	-	-	38,168	-
Share Capital	-	60	-	-	590	-
Debtors - current	-	22,345	-	-	18,119	-
Debtors - non-current	-	3,457	-	-	5,256	-
	-	62,643	-	-	67,057	-
Assets total	6,792,959	650,660	-	6,326,366	817,833	-



NOTES TO THE FINANCIAL STATEMENTS

Classification of financial instruments - parent (cont)	Restated 31 March 2019			Restated 31 March 2020		
	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	£000	£000	£000	£000	£000	£000
Investment liabilities						
Derivative contracts	(854)	-	-	(22)	-	-
Other investment balances	-	-	(1,058)	-	-	(1,927)
	(854)	-	(1,058)	(22)	-	(1,927)
Other liabilities						
Creditors	-	-	(30,799)	-	-	(30,084)
Liabilities total	(854)	-	(31,857)	(22)	-	(32,011)
Total net assets	6,792,105	650,660	(31,857)	6,326,344	817,833	(32,011)
Total net financial instruments			7,410,908			7,112,166
Amounts not classified as financial instruments			410,125			368,152
Total net assets - parent			7,821,033			7,480,318



NOTES TO THE FINANCIAL STATEMENTS

20a Classification of financial instruments (cont)

Classification of financial instruments - adjustments to parent to arrive at group	Restated 31 March 2019			Restated 31 March 2020		
	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
	£000	£000	£000	£000	£000	£000
Other assets						
Cash	-	341	-	-	870	-
Share Capital	-	(60)	-	-	(590)	-
Debtors - current	-	223	-	-	328	-
Debtors - non-current	-	393	-	-	424	-
	-	897	-	-	1,032	-
Assets total	-	897	-	-	1,032	-
Other liabilities						
Retire. benefit obligation	-	-	(2,309)	-	-	(2,232)
Creditors	-	-	(346)	-	-	(359)
Creditors - non current	-	-	(13)	-	-	(15)
Liabilities total	-	-	(2,668)	-	-	(2,606)
Total net assets	-	897	(2,668)	-	1,032	(2,606)
Total net financial instruments			(1,771)			(1,574)
Total net assets - parent			7,819,262			7,478,744

20b Net gains and losses on financial instruments

	2018/19	2019/20
	£000	£000
Designated as fair value through fund account	489,399	(491,457)
Loans and receivables	16,390	15,913
Financial liabilities at amortised cost	-	-
Total	505,789	(475,544)
Gains and losses on directly held freehold property	(2,055)	(24,751)
Change in market value of investments per fund account	503,734	(500,295)



NOTES TO THE FINANCIAL STATEMENTS

20c 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 is not 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.

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.



NOTES TO THE FINANCIAL STATEMENTS

20c Fair Value Hierarchy (cont)

	31 March 2020			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	4,238,265	646,379	1,441,718	6,326,362
Non-financial assets at fair value through profit and loss	-	-	367,494	367,494
Total investment assets	4,238,265	646,379	1,809,212	6,693,856
Investment liabilities				
Designated as fair value through fund account	-	(22)	-	(22)
Total investment liabilities	-	(22)	-	(22)
Net investment assets	4,238,265	646,357	1,809,212	6,693,834

	Restated 31 March 2019			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	4,563,196	926,654	1,299,026	6,788,876
Non-financial assets at fair value through profit and loss	-	-	411,978	411,978
Total investment assets	4,563,196	926,654	1,711,004	7,200,854
Investment liabilities				
Designated as fair value through fund account	-	(854)	-	(854)
Total investment liabilities	-	(854)	-	(854)
Net investment assets	4,563,196	925,800	1,711,004	7,200,000



NOTES TO THE FINANCIAL STATEMENTS

21 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 are 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.



NOTES TO THE FINANCIAL STATEMENTS

21 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 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.

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.5%
Equities - Emerging Markets	30.0%
Private Equity	30.0%
Timber and Gold	18.0%
Secured Loans	10.0%
Fixed Interest Gilts	5.9%
Index-Linked Gilts	10.9%
Infrastructure	12.0%
Property	13.0%
Cash	0.8%



NOTES TO THE FINANCIAL STATEMENTS

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

	Value at 31 March 2020	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Equities - Developed Markets	3,898	52.4	20.5%	4,697.1	3,098.9
Equities - Emerging Markets	293	3.9	30.0%	380.9	205.1
Private Equity	128	1.7	30.0%	166.4	89.6
Timber and Gold	130	1.7	18.0%	153.4	106.6
Secured Loan	416	5.6	10.0%	457.6	374.4
Fixed Interest Gilts	168	2.3	5.9%	177.9	158.1
Index-Linked Gilts	515	6.9	10.9%	571.1	458.9
Infrastructure	962	12.9	12.0%	1,077.4	846.6
Property	549	7.4	13.0%	620.4	477.6
Cash and forward foreign exchange	384	5.2	0.8%	387.1	380.9
Total [1]	7,443	100.0	16.7%	8,689.3	6,196.7
Total [2]			13.0%	8,412.1	6,473.9
Total [3]			13.7%	8,464.2	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 is not 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.



NOTES TO THE FINANCIAL STATEMENTS

21 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 is not reflected in market prices.

Cash deposits

At 31 March 2020, cash deposits represented £719.6m, 9.5% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2020	Balances at 31 March 2019	Balances at 31 March 2020
		£000	£000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	Aaa-mf	13,517	88,569
Northern Trust Company - cash deposits	Aa2	443,357	238,706
UK Short-Term Bills and Notes	Aa2	-	218,968
The City of Edinburgh Council - treasury management	See below	112,315	135,229
Total investment cash		569,189	681,472
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	35,897	38,168
Total cash - parent		605,086	719,640
Cash held by LPFE/LPFI Limited			
Royal Bank of Scotland	A1	341	870
Total cash - group		605,427	720,510

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.



NOTES TO THE FINANCIAL STATEMENTS

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

	Moody's Credit Rating at 31 March 2020	Balances at 31 March 2019	Balances at 31 March 2020
		£000	£000
Money market funds			
Deutsche Bank AG, London	Aaa-mf	3,979	20,825
Goldman Sachs	Aaa-mf	58	12,444
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	21,746	23,005
Bank call accounts			
Bank of Scotland	Aa3	14,578	4,795
Royal Bank of Scotland	A1	573	9,634
Santander UK	Aa3	1	-
Barclays Bank	A1	13	12
Svenska Handelsbanken	Aa2	6	6
HSBC Bank PLC	Aa3	14	4
Notice accounts			
HSBC Bank PLC	Aa3	17,527	9,044
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa2	89,717	93,628
		148,212	173,397

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2020 was 'Aa2').

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 does not expect any losses from non-performance by any of its counterparties in relation to deposits.



NOTES TO THE FINANCIAL STATEMENTS

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

Securities lending

The Fund participates in a securities lending programme as described above. The Fund is potentially exposed to credit risk in the event of the borrower of securities defaulting. This risk 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 2020, the Fund was owed £15.2m 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 is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is 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 76% (2019 78%)) of the Fund's investments could be converted to cash within three months in a normal trading environment.

22 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.



NOTES TO THE FINANCIAL STATEMENTS

23 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 £8,774m (2019 £9,435m). The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 19	31 March 20
	% p.a.	% p.a.
Inflation / pensions increase rate	2.5	1.9
Salary increase rate	4.2	3.5
Discount rate	2.4	2.3

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2016 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2019		31 March 2020	
	Male	Female	Male	Female
Current pensioners	21.7 years	24.3 years	21.7 years	24.3 years
Future pensioners (assumed to be currently 45)	24.7 years	27.5 years	24.7 years	27.5 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.



NOTES TO THE FINANCIAL STATEMENTS

24 Non-current Debtors

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 £8,774m (2019 £9,435m). 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.

	LPF Parent 31 March 2019	LPF Group 31 March 2019	LPF Parent 31 March 2020	LPF Group 31 March 2020
	£000	£000	£000	£000
Contributions due - employers' cessation	3,457	3,457	5,256	5,256
	3,457	3,457	5,256	5,256

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.

25 Debtors

	LPF Parent 31 March 2019	LPF Group 31 March 2019	LPF Parent 31 March 2020	LPF Group 31 March 2020
	£000	£000	£000	£000
Contributions due - employers	16,831	16,831	13,680	13,680
Contributions due - members	4,691	4,691	3,808	3,807
Benefits paid in advance or recoverable	6	6	49	49
Sundry debtors	503	717	195	525
Prepayments	314	323	386	386
LPFE & LPFI Limited Loan facility - see note 28	-	-	-	-
	22,345	22,568	18,118	18,447



NOTES TO THE FINANCIAL STATEMENTS

26 Creditors

	LPF Parent 31 March 2019	LPF Group 31 March 2019	LPF Parent 31 March 2020	LPF Group 31 March 2020
	£000	£000	£000	£000
Benefits payable	8,886	8,886	6,622	6,622
VAT, PAYE and State Scheme premiums	1,354	1,738	4,402	4,863
Contributions in advance	17,785	17,785	16,742	16,742
Miscellaneous creditors and accrued expenses	2,332	2,488	1,791	2,004
Office - operating lease	220	220	197	197
Corporation tax	-	28	-	15
Intra group creditor - see note 28	222	-	329	-
	30,799	31,145	30,083	30,443

27 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 are not included in the pension fund financial statements.

	2018/19	2019/20
Total contributions during year for Lothian Pension fund	£000	£000
Standard Life	312	323
Prudential	2,225	2,037
	2,537	2,360

	31 March 2019	31 March 2020
Total value at year end for Lothian Pension Fund	£000	£000
Standard Life	4,685	4,102
Prudential	7,676	7,515
	12,361	11,617



NOTES TO THE FINANCIAL STATEMENTS

28 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 is 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 2019	31 March 2020
	£000	£000
Year end balance of holding account	884	4,924
	884	4,924

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 2020, the fund had an average investment balance of £144.7m (2018/19 £139.1m). Interest earned was £1135k (2018/19 £977.1k)

Year end balance on treasury management account

	31 March 2019	31 March 2020
	£000	£000
Held for investment purposes	112,315	135,229
Held for other purposes	35,897	38,168
	148,212	173,397



NOTES TO THE FINANCIAL STATEMENTS

28 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 XX. The employer contributions for the ten largest scheme employers are as follows:

	31 March 2019	31 March 2020
	£000	£000
City of Edinburgh Council	59,694	64,051
West Lothian Council	25,841	26,458
Scottish Water	15,975	16,504
East Lothian Council	14,746	15,799
Midlothian Council	14,041	14,927
Lothian Buses	7,002	6,565
Edinburgh Napier University	5,199	5,521
Heriot-Watt University	3,026	3,205
Scottish Police Authority	3,016	2,802
Edinburgh College	2,676	2,777

Governance

As at 31 March 2020, all members of the Pensions Committee, with the exception of Richard Lamont, and all members of the Pension Board, with the exception of Sharon Cowle, were members of the Lothian Pension Fund. One member of both the Pensions Committee and the Pension Board are 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 2019 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 2019	31 March 2020
	£000	£000
Short-term employee benefits	647	757
Post-employment benefits - employer pension contributions	111	140



NOTES TO THE FINANCIAL STATEMENTS

28 Related parties (cont)

Key management personnel employed by LPFE had accrued pensions totalling £106,596 (1 April 2019: £120,245) and lump sums totalling £121,925 (1 April 2019: £132,375) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 115.

Remuneration of key management personnel employed by City of Edinburgh Council is disclosed separately in the Financial Statements of 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 2020 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 £2,132 of which £1,037 was due at the year end and for LPFI Limited there was minimal interest payable for the year. At 31 March 2020, there was zero balance on the loan facilities for both LPFE Limited and 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 2020, the Fund was invoiced £4,239k (2019 £3,614k) for the services of LPFE Limited staff.



NOTES TO THE FINANCIAL STATEMENTS

29a Consolidated Lothian Pension Fund Group - LPFE Limited & LPFI Limited - deferred tax

Movement in deferred tax asset (Non-current asset)

	LPF Group 2018/19	LPF Group 2019/20
	£000	£000
At 1 April 2018	292	393
Credit for year to Fund Account	101	31
At 31 March 2019	393	424

Elements of closing deferred tax asset

	LPF Group 31 March 2019	LPF Group 31 March 2020
	£000	£000
Pension liability	393	424
	393	424

29b Shares in group companies - LPFE Limited & LPFI Limited

	31 March 2019	31 March 2020
	£	£
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	60,000	590,378
	60,001	590,379

*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. 'a'

As part of the LPFI's FCA permissions extension, the Fund is required to meet new ICAAP capital requirements based on the value of assets under management. The Fund financed an additional £530k of share capital for LPFI in March 2020 to meet this requirement.



NOTES TO THE FINANCIAL STATEMENTS

30 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 City of Edinburgh Council's Financial Statements.

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:

Asset		Fair value at 31 March 2019	% of total 31 March 2019	Fair value at 31 March 2020	% of total 31 March 2020
		£000	%	£000	%
Equity securities:	Consumer	1,094	14.0	1,036	10.0
	Manufacturing	1,265	15.0	1,568	14.0
	Energy & Utilities	777	6.0	693	7.0
	Financial institutions	865	9.0	707	7.0
	Health & care	559	5.0	752	7.0
	Information Technology	335	6.0	470	4.0
	Other	1,003	6.0	794	7.0
Debt securities:	Corporate Bonds	-	2.0	582	5.0
	UK Government	1,045	10.0	669	6.0
Private equity:	All	139	2.0	95	1.0
Real property:	UK property	697	6.0	712	7.0
	Overseas property	-	0.0	10	0.0
Investment funds and unit trusts:	Equities	102	1.0	133	1.0
	Bonds	261	0.0	46	0.0
	Infrastructure	1,277	12.0	1,529	14.0
Derivatives:	Foreign Exchange	3	0.0	22	0.0
Cash and cash equivalents	All	863	6.0	1,053	10.0
		10,285	100.0	10,871	100.0



NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - group (cont)

Amounts recognised in the Net Assets Statement

	LPF Group 31 March 2019	LPF Group 31 March 2020
	£000	£000
Fair value of Fund assets	10,285	10,871
Present value of Fund liabilities	(12,594)	(13,103)
	(2,309)	(2,232)

Movement in the defined benefit obligation during the period

	LPF Group 31 March 2018/19	LPF Group 31 March 2019/20
	£000	£000
Brought forward	10,367	12,594
Current service cost	843	1,144
Past service cost	-	307
Interest cost on obligation	294	332
Fund participants contributions	186	233
Benefits paid	-	(11)
Actuarial losses arising from changes in financial assumptions	904	(1,496)
Actuarial losses arising from changes in demographic assumptions	-	-
Other actuarial losses	-	-
Balance at year end	12,594	13,103



NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - group (cont)

Movement in the fair value of Fund assets during the period

	LPF Group 31 March 2018/19	LPF Group 31 March 2019/20
	£000	£000
Brought forward	8,652	10,285
Benefits paid		
Interest income on Fund assets	244	270
Contributions by employer	567	792
Contributions by member	194	233
Contributions in respect of unfunded benefits	-	(11)
Unfunded benefits paid	(8)	
Effect of business combinations and disposals	-	
Return on assets excluding amounts included in net interest	636	(698)
Balance at year end	10,285	10,871

Amounts recognised in the Fund Account

	LPF Group 31 March 2018/19	LPF Group 31 March 2019/20
	£000	£000
Interest received on Fund assets	(244)	(270)
Interest cost on Fund liabilities	294	332
Current service costs	843	1,144
Past service costs	-	307
Employer contributions	(567)	(792)
Actuarial gain/(loss) due to re-measurement of defined benefit obligation	904	(1,496)
Return on Fund assets (excluding interest above)	(636)	698
Net cost recognised in Fund account	594	(77)



NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - group (cont)

Principal actuarial assumptions used in this valuation

	31 March 2019	31 March 2020
	% p.a.	% p.a.
Inflation / pensions increase rate	2.4	1.8
Salary increase rate	4.1	3.4
Discount rate	2.5	2.3

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 is 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 is 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 Fund specific statistical analysis with improvements in line with the CMI 2012 model assuming current rates of improvements have peaked and will converge to a long term rate of 1.25% p.a.

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

	31 March 2019		31 March 2020	
	Male	Female	Male	Female
Current pensioners	21.7 years	24.3 years	21.7 years	24.3 years
Future pensioners	24.7 years	27.5 years	24.7 years	27.5 years

Expected employer contributions to the defined benefit plan for the year ended 31 March 2021 are £881k, based on a pensionable payroll cost of £2.895k



NOTES TO THE FINANCIAL STATEMENTS

31 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 2019	31 March 2020
	£000	£000
Outstanding investment commitment	325,361	301,002
	325,361	301,002

Office accommodation - 144 Morrison Street, Edinburgh

The Fund is committed to making the following future payments.

	31 March 2019	31 March 2020
	£000	£000
Within one year	115	124
Between one and five years	345	373
After five years	647	566
	1,107	1,063
Recognised as an expense during the year	92	105

The Fund is overdue a review on its rent agreement, the above expense including a provision for a backdated rental increase. This expense has been allocated across the two Funds, with Lothian Pension Fund's share being £103k.



NOTES TO THE FINANCIAL STATEMENTS

32 Contingent assets and liabilities

Contribution refunds

At 31st March 2020, Lothian Pension Fund had £914k (2019: £909k) in unclaimed refunds due to members.

Employer Cessations

As stated in note 24, "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 2020, such contingent assets of the Fund totalled £1,635k and the fund has secured second ranking security over two employer property assets.

Waverley Care, Freespace and Four Square also left the Fund during the 2019/20 year. The Fund is currently working with the Actuary to finalise exit valuations. Waverley Care and Freespace have indicated they are unlikely to be able to meet their exit deficits in full and funding agreements will be put in place as required. At 31 March 2020, it is estimated that these cessation debts would be valued at circa. £3,500k.

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. The claims can be divided into three main types – "Manninen" / Foreign Income Dividends (Fids), "Fokus Bank" and Manufactured Dividends. 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 £11.6m. 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.



NOTES TO THE FINANCIAL STATEMENTS

32 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 February to 31 January 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 2019/20 and payment two for the 2018/19 was made in January 2020. A liability has been raised at 31 March 2020 for the two months of service for the second and third instalment of 2019/20 and third instalment of 2018/19 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 January 2020 remain in the company's employment there is a contingent liability of £468,395 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.

Age Discrimination in Public Service Pension

On 13 May 2020, the Scottish Public Pensions Agency (SPPA) advised that:

"In December 2018, the Court of Appeal found that the transitional protections introduced to the judicial and firefighters' schemes during the reform of public service pensions in 2015 discriminated on grounds of age. The UK Government sought permission to appeal this decision but this was not granted, and on 15 July 2019 the UK Government issued a written ministerial statement to confirm that as transitional protection was provided in all public service schemes, the ruling had implications for all those schemes, including the Scottish Local Government Pension Scheme (SLGPS).

"Details of the Court of Appeal ruling, hereafter referred to as McCloud, are available ...

"Whilst initial proposals to address the specific discrimination in the SLGPS have been shared with the scheme advisory board, there remains uncertainty around the timing and changes needed in light of McCloud."

The Fund's IAS26 reporting from its actuary, as disclosed in Note 23, takes into account the appeal decision. There remains significant uncertainty over the remedy to be applied and associated costs to Scottish LGPS funds.



NOTES TO THE FINANCIAL STATEMENTS

32 Contingent assets and liabilities (cont)

Employer Cost Cap considerations

In the same communication of 13 May 2020, SPPA stated:

"The reforms introduced to public service pensions from 1 April 2015 (or a year earlier in the case of the local government scheme in England and Wales) also included a new cost control mechanism, known as the employer cost cap.

"The purpose of the mechanism was to introduce a way of sharing pension cost increases and sav-ings between the employer (ultimately often the taxpayer) and scheme members...

"The first cost cap valuation for LGPS Scotland was due to take place at 31 March 2017. As you are aware, GAD commenced this process however it has not yet been completed, as the cost cap element of scheme valuations was suspended by the UK Government in early 2019 pending the resolution of McCloud. In a written ministerial statement on 25 March 2020, the Economic Secretary to the Treasury outlined the UK Government's intention to provide an update on the cost cap mechanism alongside proposals to address McCloud.

"We realise the challenges that actuaries face in considering the uncertainties in McCloud and the cost cap, particularly given the tight timescales for completing valuations. We regret that we are currently unable to suggest how provision might be made for any running of the cost cap process but hope to have more clarity in the next two months. We will write to administering authorities to provide an update at the earliest opportunity."

33 Impairment losses

	2018/19	2019/20
	£000	£000
Bad Debt provision	43	166

During the year the Fund recognised an increase in impairment losses in respect of specific benefit over payments for which reimbursement has been requested of £123k. This increased the impairment to £166k at the year end.



ACTUARIAL STATEMENT FOR 2019/20

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. 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 (FSS), dated March 2018. 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
- 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 achieve these objectives.

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 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £6,598 million, were sufficient to meet 98% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £145 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 given time horizon. Contribution rates were set using one of two approaches depending on each employer's circumstances:

- Certain low risk and open employers participate in a contribution stability mechanism which limits annual changes in contribution rates. The mechanism is tested at each valuation to make sure it achieves the desired funding objectives.
- Other employers pay the contributions required to cover the cost of future service benefits and to recover the deficit/surplus identified as at 31 March 2017 over a given time period

Individual employers' contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS, which includes further detail on the approaches mentioned above.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.



ACTUARIAL STATEMENT FOR 2019/20

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 2017 valuation were as follows:

	31 March 2017
Financial assumptions	% p.a.
Discount rate	3.2%
Salary increase assumption	4.1%
Benefit increase assumption (CPI)	2.4%

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 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	21.7 years	24.3 years
Future Pensioners *	24.7 years	27.5 years

*Aged 45 as at 31 March 2017

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the 2019/20 financial year. As a result, the funding level of the Fund as at 31 March 2020 is expected to have reduced versus that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Laura McInroy FFA

For and on behalf of Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB
Friday, 15 May 20



ACCOUNTS

LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2020

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	Visit Scotland
Midlothian Council	West Lothian College
Scotland's Rural College (SRUC)	West Lothian Council

Admitted Bodies	
Amey Services	Improvement Service (The)
Audit Scotland	ISS UK Ltd
Baxter Storey	LPFE Ltd
Bellrock Property and Facilities Management	Melville Housing Association
Canongate Youth Project	Mitie (Edinburgh College)
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
Convention of Scottish Local Authorities	Penumbra



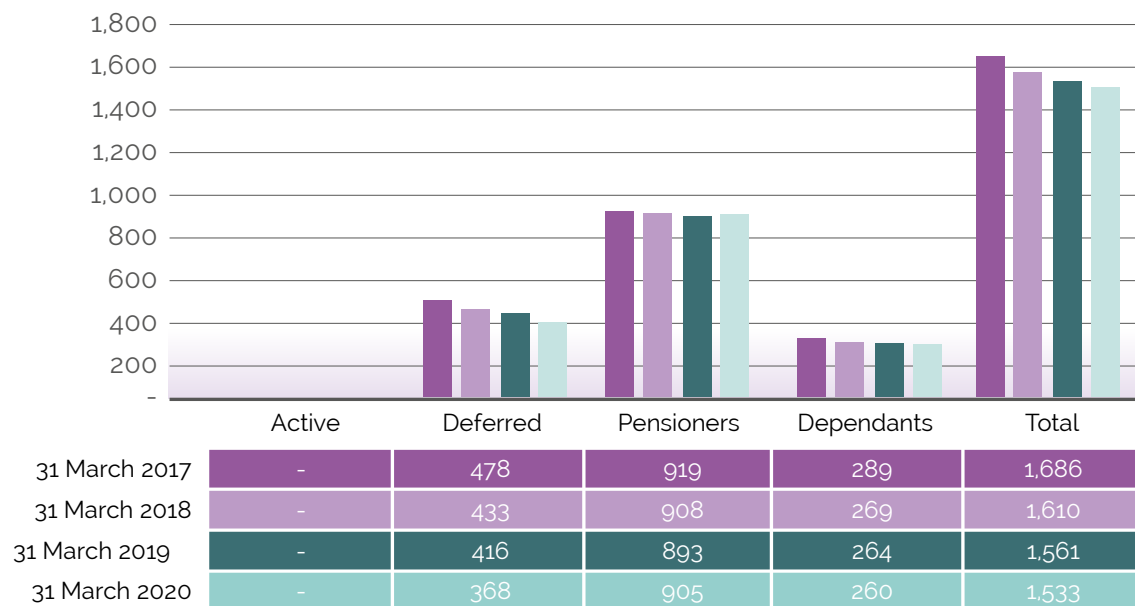
ACCOUNTS

Cyrenians	Pilton Equalities Project
Dacoll Limited	Queen Margaret University
Edinburgh Development Group	Royal Edinburgh Military Tattoo
Edinburgh International Festival Society	Royal Society of Edinburgh
Edinburgh Leisure	Scotland's Learning Partnership
Edinburgh Napier University	Scottish Adoption Agency
ELCAP	Scottish Futures Trust
Enjoy East Lothian	Scottish Schools Education Research Centre (SSERC)
Family Advice and Information Resource	Skanska UK
First Step	Sodexo Ltd
Forth and Oban Ltd	St Andrew's Children's Society Limited
Granton Information Centre	Stepping Out Project
Handicabs (Lothian) Ltd	University of Edinburgh (Edinburgh College of Art)
Hanover (Scotland) Housing Association	Weslo Housing Management
Health in Mind	West Granton Community Trust
Homes for Life Housing Partnership	West Lothian Leisure
HWU Students Association	Young Scot Enterprise



SCOTTISH HOMES PENSION FUND ACCOUNTS

SCOTTISH HOMES PENSION FUND ACCOUNTS



* 2019 and 2020 include HAS members

Homeless Action Scotland

The admission to Local Government Pension membership of Homeless Action Scotland (HAS) was terminated by LPF with effect from 12 July 2018. At the point of transfer, HAS had eleven deferred members, four pensioner members and one dependant member. The Actuary calculated the liabilities that remained on cessation at £641,000. Following specific request by LPF, on 31 March 2020, the Scottish Ministers issued a direction to the effect that:

- SHPF be substituted for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and that all assets and liabilities of LPF relating to the Scheme employer are transferred to SHPF as at that date
- with effect from 11 July 2018, City of Edinburgh Council, as the administering authority of SHPF, shall admit the Scheme employer as an admission body of SHPF
- the administering authority must by 30 June 2020 execute all documents and do all things necessary to complete the substitution of SHPF for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and the transfer of all assets and liabilities of Lothian Pension Fund relating to the Scheme employer to SHPF as at that date.



SCOTTISH HOMES PENSION FUND ACCOUNTS

Investment strategy

The Fund's actuary estimated that the funding level of the Scottish Homes Pension Fund was 104.7% at 31 March 2017.

Achievement of full funding meant that the Fund no longer needed to take investment risk by investing in equities and property. Instead, the Fund was able to minimise risk by investing solely in bonds, specifically UK gilts. These financial instruments move proportionately with liability values.

After a year of significant change, the year to 31 March 2020 brought no change to the strategy allocation of 100% bonds and this shouldn't change until at least the results of the next actuarial valuation (March 2020) are known. At that point in time, the actuary will amend financial and demographic estimates based on actual experience over the prior three years.

The strategic and actual asset allocations for the Fund at the end of the 2019 and 2020 financial years are shown in the table below.

Asset Class	Strategic Allocation	Actual Allocation	Strategic Allocation	Actual Allocation
	31 March 2019	31 March 2019	31 March 2020	31 March 2020
	%	%	%	%
Equities	-	-	-	-
Bonds	100	98	100	99
Property	-	-	-	-
Cash	-	2	-	1
Total	100	100	100	100

Given that the Fund had achieved full funding, the Pensions Committee approved a new investment objective in June 2018: "To match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the fund."



SCOTTISH HOMES PENSION FUND ACCOUNTS

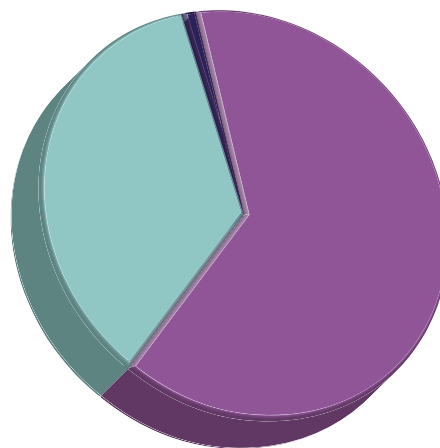
Detailed analysis of the Scottish Homes liabilities was undertaken during 2018/19 to ensure that the invested assets are as closely matched with the liability profile as possible, taking into consideration the expected duration of liabilities and whether they're fixed or index-linked in nature.

This resulted in a portion of index-linked gilts being sold and reinvested in nominal gilts to achieve a closer asset-liability match. There have been no further changes over 2019/20.

At 31 March 2020, the Fund is 'cash flow matched' up to one year beyond the next actuarial valuation expected in early 2021, and 'duration matched' liabilities beyond that. This is because there is greater certainty in the earlier period – funding levels will continue to be subject to the actuary's financial or demographic assumptions of future experience, which will be reassessed during 2020/21.

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

ACTUAL ASSET ALLOCATION 31 MARCH 2020



- **63.6%** Index Linked Gilts
- **35.6%** Nominal Gilts
- **0.8%** Cash

Investment movements

As the Scottish Homes Pension Fund is 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.

The Fund's assets have increased in value by 3.9% over the year, adjusted for cash flow movements to pay pensions.



SCOTTISH HOMES PENSION FUND

Fund Account for year ended 31 March 2020

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 and as well as the cost of providing benefits and administration of the Fund.

Restated 2018/19		Note	2019/20
£000			£000
	Income		
-	Contributions from the Scottish Government	4	-
1,726	Transfers from other schemes		-
1,726			-
	Less: expenditure		
6,607	Pension payments including increases		6,653
591	Lump sum retirement payments		621
5	Lump sum death benefits		4
129	Transfers to other schemes	6	-
(17)	Administrative expenses	7b	(25)
7,315			7,253
(5,589)	Net withdrawals from dealing with members		(7,253)
	Returns on investments		
1,824	Investment income	8	2,466
5,877	Change in market value of investments	9, 12b	4,473
(84)	Investment management expenses	7c	(104)
7,617	Net returns on investments		6,835
2,028	Net increase/(decrease) in the Fund during the year		(418)
164,460	Net assets of the Fund at 1 April 2019		166,488
166,488	Net assets of the Fund at 31 March 2020	7c	166,070



SCOTTISH HOMES PENSION FUND

Net Assets Statement as at 31 March 2020

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

Restated 31 March 2019		Note	31 March 2020
£000			£000
Investment Assets			
160,542	Bonds - UK		159,933
3,650	Cash Deposits		3,824
618	Other investment assets		615
164,810			164,372
Investment Liabilities			
-	Other investment liabilities		-
-			-
164,810	Net investment assets	10	164,372
Current assets			
10	The City of Edinburgh Council	18	130
1,741	Cash balances	13, 18	1,599
1	Debtors	16	2
1,752			1,731
Current liabilities			
(74)	Creditors	17	(33)
(74)			(33)
1,678	Net current assets		1,698
166,488	Net assets of the Fund	12	166,070

The unaudited accounts were issued on 24 June 2020 and the audited accounts were authorised for issue on XX September 2020.

John Burns FCMA CGMA, PgC

Chief Finance Officer, Lothian Pension Fund
XX/09/2020

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 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.



NOTES TO THE FINANCIAL STATEMENTS

Net Assets Statement as at 31 March 2020

1 Statement of Accounting Policies

The statement of accounting policies for both Funds can be found on page 157.

2 Prior Year Adjustment

Ministerial Direction – Homeless Action Scotland

The admission to Local Government Pension (LGPS) membership of Homeless Action Scotland (HAS) was terminated by Lothian Pension Fund (LPF) with effect from 12 July 2018. The Actuary to LPF calculated the liabilities that remained on cessation at £641,000. Following specific request by LPF, on 31 March 2020, the Scottish Ministers issued a direction to the effect that:

(a) Scottish Homes Pension Fund (SHPF) be substituted for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and that all assets and liabilities of Lothian Pension Fund relating to the Scheme employer are transferred to SHPF as at that date;

(b) with effect from 11 July 2018, City of Edinburgh Council, as the administering authority of SHPF, shall admit the Scheme employer as an admission body of SHPF; and

(c) the administering authority must by 30 June 2020 execute all documents and do all things necessary to complete the substitution of SHPF for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and the transfer of all assets and liabilities of Lothian Pension Fund relating to the Scheme employer to SHPF as at that date.

	2018/19 Audited	Adjustment	2018/19 Restated
	£000	£000	£000
Transfers from other schemes	-	1,726	1,726
Pension Payments	6,572	35	6,607
Administrative Expenses	(19)	2	(17)
Change in Market Value of Investments	5,767	110	5,877
Bonds - UK	158,743	1,799	160,542



NOTES TO THE FINANCIAL STATEMENTS

3 Events after the Reporting Date

There have been no events since 31 March 2020, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

4 Contributions from the Scottish Government

The Scottish Homes Pension Fund (SHPF) is a dual employer pension fund for former employees of Scottish Homes (subsequently Communities Scotland) (and persons who were employed by the Scottish Special Housing Association, but who did not become employees of Scottish Homes) and former employees of 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 Regs). 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 (that is, the fund has no contributions paid into it by active members but consists only deferred and pensioner members and therefore only pays money out to the pensioners).

Section 2 (1C) of the 2005 Regs 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 2017, SHPF showed a funding surplus of £7.7million with a funding level of 104.7%, derived from a market valuation of assets of £170.6million and liabilities of £162.9million.

Having implemented the investment strategy as required by the Funding Agreement, the assets of SHPF are invested entirely in low risk, index-linked gilts. With a funding surplus, the Scottish Government is not required to provide any contribution, but as Guarantor has the responsibility to pay towards the administration expenses of the Fund estimated to be £70,000 per annum (for years 2018 to 31 March 2021).

In addition the Guarantor is responsible for meeting the cost of investment expenses. Given the Fund's surplus the Fund is comfortable that investment expenses can be met directly by the Fund until the next triannual valuation.



NOTES TO THE FINANCIAL STATEMENTS

5 Transfers from other pension schemes

	Restated 2018/19	2019/20
	£000	£000
Group transfers	1,726	-
Individual transfers	-	-
	1,726	-

6 Transfers out to other pension schemes

	2018/19	2019/20
	£000	£000
Group transfers	-	-
Individual transfers	129	-
	129	-

7a Total Management expenses

	Restated 2018/19	2019/20
	£000	£000
Administrative costs	(17)	(25)
Investment management expenses	50	62
Oversight and governance costs	34	42
	67	79

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 7b and c and splits out the costs to include a third heading covering oversight and governance expenditure.



NOTES TO THE FINANCIAL STATEMENTS

7b Administrative expenses	Restated 2018/19	2019/20
	£000	£000
Employee costs	28	26
System costs	8	9
Actuarial fees	8	2
External audit fees	1	1
Printing and postage	2	3
Depreciation	1	1
Office costs	2	2
Sundry costs less sundry income	3	1
	53	45
Administration fee received	(70)	(70)
	(17)	(25)

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.

7c Investment management expenses	2018/19	2019/20
	£000	£000
External management fees - deducted from capital (direct)	-	-
Transaction costs	2	-
Employee costs	44	56
Custody fees	6	8
Engagement and voting fees	2	3
Performance measurement fees	3	-
Consultancy fees	3	1
System costs	9	12
Legal fees	2	3
Office costs	2	3
Sundry costs less sundry income	11	18
	84	104

The Fund has not incurred any performance-related investment management fees in 2019/20 or 2018/19.



NOTES TO THE FINANCIAL STATEMENTS

8 Investment income

	2018/19	2019/20
	£000	£000
Income from fixed interest securities	1,749	2,437
Interest on cash deposits and sundries	75	29
	1,824	2,466
Irrecoverable withholding tax	-	-
	1,824	2,466

9 Reconciliation of movement in investments

	Market value at 31 March 2019	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2020
	£000	£000	£000	£000	£000
Bonds	160,542	-	(5,015)	4,406	159,933
Equities	-	-	-	-	-
Pooled investment vehicles	-	-	-	-	-
	160,542	-	(5,015)	4,406	159,933
Other financial assets / (liabilities)					
Cash deposits*	3,650			12	3,824
Investment income due/ amounts payable*	618			-	615
	4,268			12	4,439
Net financial assets	164,810			4,418	164,372

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.



NOTES TO THE FINANCIAL STATEMENTS

9 Reconciliation of movement in investments (cont)

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 2018	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2019
	£000	£000	£000	£000	£000
Bonds	148,064	54,948	(50,036)	7,566	160,542
Equities	-	-	-	-	-
Pooled investment vehicles	-	-	-	-	-
	148,064	54,948	(50,036)	7,566	160,542
Other financial assets / (liabilities)					
Cash deposits*	9,094			-	3,650
Investment income due/ amounts payable*	4,904			-	618
	13,998			-	4,268
Net financial assets	162,062			7,566	164,810

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



NOTES TO THE FINANCIAL STATEMENTS

10 Investment managers and mandates

		Restated Market value at 31 March 2019	Restated % of total 31 March 2019	Market value at 31 March 2020	% of total 31 March 2020
Manager	Mandate	£000	%	£000	%
In-house	Ex-Equity	31	0.0	27	0.0
Total UK equities		31	0.0	27	0.0
In-house	UK Index linked gilts	161,129	97.8	163,021	99.2
Total fixed interest and inflation linked bonds		161,129	97.8	163,021	99.2
In-house	Cash	3,650	2.2	1,324	0.8
Total cash		3,650	2.2	1,324	0.8
Net financial assets		164,810	100.0	164,372	100.0

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

	Restated Market value at 31 March 2019	Restated % of total 31 March 2019	Market value at 31 March 2020	% of total 31 March 2020
	£000	%	£000	%
UK Gov 2.5% Index Linked 16/04/20	11,619	7.0	11,411	6.9
UK Gov 4.25% 07/06/32	9,366	5.6	9,880	6.0
UK Gov 4.125% Index Linked 22/07/30	9,124	5.5	9,258	5.6
UK Gov 1.25% Index Linked 22/11/27	8,914	5.4	9,033	5.4
UK Gov 2.5% Index Linked 17/07/24	9,053	5.4	8,913	5.4
UK Gov 1.875% Index Linked 22/11/22	8,240	5.0	8,049	4.8



NOTES TO THE FINANCIAL STATEMENTS

12 Financial Instruments

12a 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 is no difference between the carrying value and fair value.

	Restated 31 March 2019			31 March 2020		
	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 assets						
Investment assets	£000	£000	£000	£000	£000	£000
Bonds	160,542	-	-	159,933	-	-
Cash	-	3,650	-	-	3,824	-
Other balances	-	618	-	-	615	-
	160,542	4,268	-	159,933	4,439	-
Other assets						
City of Edinburgh Council	-	10	-	-	130	-
Cash	-	1,741	-	-	1,599	-
Debtors	-	1	-	-	2	-
	-	1,752	-	-	1,731	-
Assets total	160,542	6,020	-	159,933	6,170	-
Financial liabilities						
Other liabilities						
Creditors	-	-	(74)	-	-	(33)
Liabilities total	-	-	(74)	-	-	(33)
Total net assets	160,542	6,020	(74)	159,933	6,170	(33)
Total net financial instruments			166,488			166,070



NOTES TO THE FINANCIAL STATEMENTS

12b Net gains and losses on financial instruments

	Restated 2018/19	2019/20
	£000	£000
Designated as fair value through fund account	7,566	4,406
Loans and receivables	-	12
Financial liabilities at amortised cost	-	-
Total	7,566	4,418

12c 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 is not 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.



NOTES TO THE FINANCIAL STATEMENTS

12c Valuation of financial instruments carried at fair value (cont)

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.

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 2020			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	-	159,933	-	159,933
Total investment assets	-	159,933	-	159,933
Investment liabilities				
Designated as fair value through fund account	-	-	-	-
Total investment liabilities	-	-	-	-
Net investment assets	-	159,933	-	159,933

	Restated 31 March 2019			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	-	160,542	-	160,542
Total financial assets	-	160,542	-	160,542
Investment liabilities				
Designated as fair value through fund account	-	-	-	-
Total financial liabilities	-	-	-	-
Net investment assets	-	160,542	-	160,542



NOTES TO THE FINANCIAL STATEMENTS

13 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. As directed by Scottish Government, after 31 March 2017 triennial valuation showed a funding level of 104.7%, the assets of the Fund were invested entirely in low risk gilts. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they are due to be paid.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The 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 Scottish Homes Pension Fund has to some extent been mitigated. The Fund's assets have been matched to its liabilities as at the 31 March 2017 triennial valuation so 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 will next take place to coincide with the results of 31 March 2020 triennial valuation.

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 by the Fund's investment adviser Isio:

Asset type	Potential price movement (+ or -)
Index-Linked Gilts	17.8%
Cash	0.0%



NOTES TO THE FINANCIAL STATEMENTS

13 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 is 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 table below shows the risks at the asset class level and the overall Fund level.

	Value at 31 March 2020	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£000	%	%	£000	£000
Index-Linked Gilts	163,021	99.2	17.8	192,093	133,949
Cash	1,351	0.8	0.0	1,351	1,351
Total [1]	164,372	100.0	17.8	193,444	135,300
Total [2]			17.8	193,696	135,048
Total [3]			7.8	177,259	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 is not 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.



NOTES TO THE FINANCIAL STATEMENTS

13 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 is not reflected in market prices.

Cash deposits

At 31 March 2020, cash deposits represented £3m, 1.8% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2020	Balances at 31 March 2019	Balances at 31 March 2020
Held for investment purposes			
Northern Trust Company - cash deposits	A2	580	1,324
The City of Edinburgh Council - treasury management	See below	3,070	-
		3,650	1,324
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,741	1,599
Total cash		5,391	2,923



NOTES TO THE FINANCIAL STATEMENTS

13 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 2020	Balances at 31 March 2019	Balances at 31 March 2020
Money market funds			
Deutsche Bank AG, London	Aaa-mf	129	192
Goldman Sachs	Aaa-mf	2	115
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	706	212
Bank call accounts			
Bank of Scotland	Aa3	473	44
Royal Bank of Scotland	A1	19	89
Notice accounts			
HSBC Bank PLC	Aa3	569	83
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa2	2,913	864
		4,811	1,599

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2020 was 'Aa2').



NOTES TO THE FINANCIAL STATEMENTS

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

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

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 is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is 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.

14 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.



NOTES TO THE FINANCIAL STATEMENTS

15 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 £122m (2019 £135m). 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 is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2019	31 March 2020
	% p.a.	% p.a.
Inflation/pensions increase rate	2.5%	1.9%
Discount rate	2.4%	2.3%

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2016 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.75% p.a. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2019		31 March 2020	
	Male	Female	Male	Female
Current pensioners	22.4 years	24.8 years	22.4 years	24.8 years
Future pensioners (assumed to be currently 45)	24.8 years	27.8 years	24.8 years	27.8 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.



NOTES TO THE FINANCIAL STATEMENTS

16 Debtors

	31 March 2019	31 March 2020
	£000	£000
Sundry debtors	2	2
	2	2

17 Creditors

	31 March 2019	31 March 2020
	£000	£000
Benefits payable	73	31
Miscellaneous creditors and accrued expenses	1	2
	74	33

18 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 is 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 2019	31 March 2020
	£000	£000
Year end balance of holding account	10	130
	10	130

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 2020, the fund had an average investment balance of £2.5m (2019 £10.6m). Interest earned was £20k (2019 £74k).



NOTES TO THE FINANCIAL STATEMENTS

18 Related party transactions (cont)

Year end balance on treasury management account

	31 March 2019	31 March 2020
	£000	£000
Held for investment purposes	3,070	-
Held for other purposes	1,741	1,599
	4,811	1,599

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 4 (page 130) 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 2020, the Fund was recharged £81k (2019 £70k) for the services of LPFE Limited staff.



NOTES TO THE FINANCIAL STATEMENTS

18 Related party transactions (cont)

Governance

As at 31 March 2020, all members of the Pensions Committee, with the exception of Richard Lamont, and all members of the Pension Board, with the exception of Sharon Cowle, were members of the Lothian Pension Fund. One member of both the Pensions Committee and the Pension Board are 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.

During the period from 1 April 2019 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 2019	31 March 2020
	£000	£000
Short-term employee benefits	647	757
Post-employment benefits - employer pension contributions	111	140

Key management personnel employed by LPFE, had accrued pensions totalling £106,596 (1 April 2019: £120,245) and lump sums totalling £121,925 (1 April 2019: £132,375) at the end of the period.

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.



NOTES TO THE FINANCIAL STATEMENTS

19 Contingent assets/liabilities

Age Discrimination in Public Service Pension

On 13 May 2020, the Scottish Public Pensions Agency (SPPA) advised that:

"In December 2018, the Court of Appeal found that the transitional protections introduced to the judicial and firefighters' schemes during the reform of public service pensions in 2015 discriminated on grounds of age. The UK Government sought permission to appeal this decision but this was not granted, and on 15 July 2019 the UK Government issued a written ministerial statement to confirm that as transitional protection was provided in all public service schemes, the ruling had implications for all those schemes, including the Scottish Local Government Pension Scheme (SLGPS).

"Details of the Court of Appeal ruling, hereafter referred to as McCloud, are available...

"Whilst initial proposals to address the specific discrimination in the SLGPS have been shared with the scheme advisory board, there remains uncertainty around the timing and changes needed in light of McCloud."

The Fund's IAS26 reporting from its actuary, as disclosed in Note 23, takes into account the appeal decision. There remains significant uncertainty over the remedy to be applied and associated costs to Scottish LGPS funds.

Employer Cost Cap considerations

In the same communication of 13 May 2020, SPPA stated:

"The reforms introduced to public service pensions from 1 April 2015 (or a year earlier in the case of the local government scheme in England and Wales) also included a new cost control mechanism, known as the employer cost cap.

"The purpose of the mechanism was to introduce a way of sharing pension cost increases and savings between the employer (ultimately often the taxpayer) and scheme members ...

"The first cost cap valuation for LGPS Scotland was due to take place at 31 March 2017. As you are aware, GAD commenced this process however it has not yet been completed, as the cost cap element of scheme valuations was suspended by the UK Government in early 2019 pending the resolution of McCloud. In a written ministerial statement on 25 March 2020, the Economic Secretary to the Treasury outlined the UK Government's intention to provide an update on the cost cap mechanism alongside proposals to address McCloud.

"We realise the challenges that actuaries face in considering the uncertainties in McCloud and the cost cap, particularly given the tight timescales for completing valuations. We regret that we are currently unable to suggest how provision might be made for any running of the cost cap process but hope to have more clarity in the next two months. We will write to administering authorities to provide an update at the earliest opportunity."

20 Contractual commitments

The Fund had no contractual commitments at the year end.

21 Impairment losses

Impairment losses have been identified during the year



SCOTTISH HOMES PENSION FUND ACCOUNTS

Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. 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 March 2018, 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 eight years.

As the Fund was well ahead of its Target Funding Level at the 2017 valuation, it took the decision to derisk its investment strategy and now invests 100% of its assets 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 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £170.6 million, were sufficient to meet 104.7% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2017 valuation was £7.7 million.

The Guarantor's contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS.



SCOTTISH HOMES PENSION FUND ACCOUNTS

Actuarial Statement for 2019/20 (cont)

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 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's assets at their market value.

The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	Friday, 31 March 17
Discount Rate	Bank of England nominal yield curve
Benefit increase assumption (CPI)	Bank of England implied (RPI) curve less 1.0% p.a.



SCOTTISH HOMES PENSION FUND ACCOUNTS

Actuarial Statement for 2019/20 (cont)

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 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.75% p.a.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	22.4	24.8
Future Pensioners *	24.8	27.8

*Aged 45 as at 31 March 2017

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been positive asset returns over the three years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Laura McInroy FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB
Friday, 15 May 20



ACCOUNTING POLICES 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 2019/20 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 2019/20 financial year and report on the net assets available to pay pension benefits as at 31 March 2020. 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.

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 the Fund 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 POLICES 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.



ACCOUNTING POLICES AND GENERAL NOTES

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.

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 POLICES 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 POLICES 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. The Fund 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



ACCOUNTING POLICES AND GENERAL NOTES

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.

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 Standard Interpretations Committee (SIC) 15, subsequently endorsed by the International Accounting Standards Board (IASB), 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.



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SCOTTISH HOMES PENSION FUND ACCOUNTS

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. 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.





SCOTTISH HOMES PENSION FUND ACCOUNTS

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Market quoted investments - Equities	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 / index linked gilts	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 John Symes-Thompson FRICS of independent valuers, CBRE Ltd in accordance with RICS Valuation – Global Standards 2017.	Existing lease terms and rentals. Independent market research. Nature of tenancies. Covenant strength for existing tenants. Assumed vacancy levels. Estimated rental growth. Discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market price
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 (2015)	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.



SCOTTISH HOMES PENSION FUND ACCOUNTS

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted 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 2020.

Lothian Pension Fund	Assessed Valuation range (+ or -)	Value at 31 March 2020	Value on increase	Value on decrease
Unquoted		£m	£m	£m
Private Equity	30%	76.1	98.9	53.3
Infrastructure	12%	844.9	946.3	743.5
Timber	18%	124.0	146.3	101.7
Private Secured Loans	75%	205.0	220.4	189.6
Property	13%	461.0	520.9	401.1
		1,711.0	1,932.8	1,489.2

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



SCOTTISH HOMES PENSION FUND ACCOUNTS

The actuarial present value of promised retirement benefits of each of the Fund is assessed on an annual basis by the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS26, the Fund have 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 and Lothian Buses 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 are not 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 is not 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 are not 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



SCOTTISH HOMES PENSION FUND ACCOUNTS

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.

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 2020/21 Code:

The Code requires implementation from 1 April 2020 and there's therefore no impact on the 2019/20 financial statements.

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan amendment, curtailment or settlement.

The amendments are generally minor or principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.



SCOTTISH HOMES PENSION FUND ACCOUNTS

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 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 2019 was £1,395.1m (2018 £1,250.0m).

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 2020 for which there's a significant risk of material adjustment in the forthcoming financial year are as follows:



SCOTTISH HOMES PENSION FUND ACCOUNTS

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 2020	Approx Increase in liabilities %	Approx monetary amount £m
0.5% decrease in the real discount rate	11	958
1 year increase in member life expectancy	4	382
0.5% increase in salary increase rate	2	191
0.5% increase in pensions increase rate	9	751

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 2020	Approx Increase in liabilities %	Approx monetary amount £m
0.5% decrease in the real discount rate	5	7
1 year increase in member life expectancy	4	6
0.5% increase in pensions increase rate	5	7



SCOTTISH HOMES PENSION FUND ACCOUNTS

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 will not change the reported net change in the Fund for the year.

COLLEAGUE PROFILE Susan Macfarlane, Communications Business Partner

Susan joined LPF in September 2019 as our Communications Business Partner. As well as being our brand ambassador, Susan's responsible for shaping and delivering our internal and external communications strategy to ensure that our colleagues and stakeholders are kept up to date with what's going on at LPF. Susan says:

"I'm really proud to work for LPF as everyone is so positive and driven to deliver for our members. I enjoy being able to help shape our culture and share the great work we're doing at LPF with our members and stakeholders."





SCOTTISH HOMES PENSION FUND ACCOUNTS

d) Property Valuations - Novel Coronavirus (COVID-19) Outbreak

Uncertainties

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, CBRE (the Fund property valuer) consider that the Fund can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The current response to COVID-19 means that CBRE are faced with an unprecedented set of circumstances on which to base a judgement.

CBRE's valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – are attached to the valuation of the Funds' investment property assets than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, CBRE have recommend that the valuation of the Funds' properties should be kept under frequent review.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above doesn't mean that the valuation cannot be relied on. Rather, the phrase is used to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is a disclosure, not a disclaimer.

Effect if actual results differ from assumptions

There's 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 at the time the asset is sold.



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.

Hugh Dunn

Head of Finance

The City of Edinburgh Council

24 June 2020



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 2019/20 (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 2020).

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 the Code of Practice

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.

The Statement of Accounts presents a true and fair view of the financial position of the Fund as at 31 March 2019, and their income and expenditure for the year ended 31 March 2019.

John Burns, Fcma CGMA PgC

Chief Finance Officer
Lothian Pension Fund
24 June 2020



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. This responsibility is for two separate funds: the Lothian Pension Fund and Scottish Homes Pension Fund (the Fund). The Lothian Pension Fund group comprises the investment and pensions team employed by LPFE Limited (LPFE) supporting the Council in its separate statutory capacity as the administering authority of the Fund (Administering Authority) and LPFI Limited (LPFI), the Group's regulated investment vehicle (together the LPF Group).

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 role of Administering Authority is carried out via:

- the Pensions Committee and the Pensions Audit Sub-Committee
- the Pension Board
- the Joint Investment Strategy Panel; and
- the LPF Group.



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. The Pensions Committee oversees the operational administration of the Fund by the LPF Group.



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 focused 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 framework also applies to any subsidiary companies which are members of the LPF Group, namely LPFI and LPFE. 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's ongoing compliance with its governance framework and regulatory obligations is monitored on an ongoing basis by the Pensions Committee, the Audit Sub-Committee and the Pension Board and the respective boards of LPFI and LPFE.

The Administering Authority has certain oversight functions and procedures which apply to the oversight of the LPF Group. 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 assurance stack.

The LPF Group also 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.



ANNUAL GOVERNANCE STATEMENT

The relevant key elements of the LPF Group and the Fund governance framework within the Administering Authority, include:

- Identifying the objectives of the Fund in the Funding Strategy Statement, Statement of Investment Principles, Pension Administration Strategy and Service Plan
- Since April 2015, The Pensions Regulator has been responsible for setting standards of governance and administration for the Local Government Pension Scheme. The LPF Group has taken steps to fully integrate compliance with these standards within the overall governance framework
- A systematic approach to monitoring service performance by the Pensions Committee, Pensions Audit Sub-Committee, Pension Board (each including external stakeholder representation), Independent Professional Observer and senior officers
- A structured programme to ensure that Pensions Committee and Pension Board 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 Fund's Statement 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 Fund benefits from the custodian's extensive internal control framework
- Benchmarking of services in terms of standards and cost against other pension funds
- LPFE and LPFI operating within their respective constitutional documentation and the relevant companies' regulations
- LPFI operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority's rules, regulations and guidance
- For LPF Group and Fund matters, the Pensions Committee, Pensions Audit Sub-Committee and Pension Board are responsible for scrutiny and challenge and a quarterly risk reporting process is in place to ensure full consideration of such matters
- Officers of the LPF Group are managed separately through the processes and procedures of LPFE, overseen by its board of directors, with terms and conditions and a human resources performance review and management strategy tailored to the express needs of the Fund and their stakeholders
- The directors of LPFE and LPFI have obligations to report to the Pensions Committee as the governing body for the Fund and the Administering Authority as the sole shareholder. In addition, the board and colleagues of LPFI are each individually regulated by the Financial Conduct Authority and so bound by the associated Principles and Standards of governance best practice.



ANNUAL GOVERNANCE STATEMENT

Elements of the governance framework of the Council that are relevant to the LPF Group and Fund include:

- The Council is embedding a culture of commercial excellence to ensure that its services always deliver Best Value. That is ongoing and seeks to improve standards in buying practices and processes across the Council including, to the extent applicable, the LPF Group and the Fund which bear the cost of its operation and administration
- The submission of reports, findings and recommendations from the external auditor, other inspectorates and internal audit, to the Pensions Committee, Pensions Audit Sub-Committee for all matters affecting the LPF Group and Fund and, in certain circumstances strictly for Council wide oversight purposes, the Corporate Leadership Team, Governance, Risk and Best Value Committee and wider Council
- The roles and responsibilities of Elected Members and Officers are defined in LPF Procedural Standing Orders, Council Committee Terms of Reference and Delegated Functions, Contract Standing Orders, Scheme of Delegation to Officers, the Member/officer protocol and Financial Regulations. These are subject to annual review
- The Chief Executive Officer has overall accountability to Council, for all aspects of operational management and overall responsibility for ensuring the continued development and improvement of systems and processes concerned with ensuring appropriate direction, accountability and control
- The Section 95 Officer has overall responsibility for ensuring appropriate advice is given to the Council and the LPF Group on all financial matters, keeping proper financial records of accounts and maintaining an effective system of internal financial control. For the Fund, the Section 95 officer responsibility has been sub-delegated to the Chief Finance Officer of the LPF Group
- The Chief Internal Auditor has overall responsibility to review, appraise and report to management and the Governance, Risk and Best Value Committee, and for matters relating to the LPF Group and Fund to the Pensions Committee and Pensions Audit Sub-Committee, on the adequacy of relevant internal control and corporate governance arrangements and on risks relating to approved policies, programmes and projects
- The Council's Democracy, Governance and Resilience Manager, reporting to the Head of Strategy and Communications, has responsibility for advising the Council on corporate governance arrangements and supports the LPF Group on certain aspects of its governance arrangements
- The risk management policy and framework set out the responsibilities of elected members, Governance, Risk and Best Value Committee, and for LPF Group and Fund matters the Pensions Committee and Pensions Audit Sub-Committee, management and colleagues for the identification and management of risks to corporate and service-related priorities:
 - o The Resources and Chief Executive's Risk Register and Council Risk Register all identify risks and proposed treatment and actions. These registers are regularly



ANNUAL GOVERNANCE STATEMENT

reviewed, updated and reported to the Corporate Leadership Team, which reviews Council-wide risk and reports to the Governance, Risk and Best Value Committee for scrutiny and challenge

- o Resilience and business continuity plans are in place for all essential Council services. These set out arrangements for continuing to deliver essential services in the event of an emergency or other disruption
- o An Elected Members remuneration and expenses scheme is in place and is consistent with the Scottish Government's 'Councillors Remuneration: allowances and expenses – Guidance'. Information on the amounts and composition of elected members salaries, allowances and expenses is published on the Council's website
- o The Council's Democracy, Governance and Resilience Senior Manager ensures that induction training on roles and responsibilities, and ongoing development opportunities, are provided for Elected Members. A separate policy on Pensions Committee and Pension Board member training has been adopted and is overseen by the LPF Group's officers
- o Mandatory training for Councillors newly appointed to the Pensions Committee is programmed within the Induction and training programme for Elected Members. This focuses on governance, investment management and strategy and how the LPF Group and Fund work. Committee members are reminded of the requirement to undertake a minimum of 21 hours of training per financial year to fulfil their role on the Pensions Committee
- o The LPF Code of Conduct and CEC Code of Conduct set out the standards of behaviour expected from Elected Members and officers, are in place
- o The Employee Code of Conduct, Anti Bribery Policy and Policy on Fraud Prevention set out the responsibilities of officers and Elected Members in relation to fraud and corruption and are reinforced by the LPF Code of Conduct and Councillors' Code of Conduct, the Code of Ethical Standards and the Financial Regulations. The LPF Group has adapted policies to take into account the specific nature of its business and regulation
- o The Whistleblowing policy provides a process for disclosure in the public interest about the Council and its activities by officers, Elected Members and others. The LPF Group has a separate and adapted policy to take into account the specific nature of its business and regulation



ANNUAL GOVERNANCE STATEMENT

A significant element of the governance framework is the system of internal controls, which is based on an ongoing process to identify and prioritise risks to the achievement of the Council's objectives, including those relevant to the LPG Group and Fund. Following the establishment of the wholly-owned subsidiary companies, LPFE and LPFI, the Council continues to have appropriate assurance processes and procedures in relation to the responsible officers involved in the administration of those companies and so the wider LPF Group administering the Fund.

Review of Effectiveness

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Governance and Democratic Services Manager has reviewed the effectiveness of the Code.

The Chief Internal Auditor has also provided an assurance statement on the effectiveness of the system of internal control. The opinion in the assurance statement states: ["Internal Audit considers that the LPF control environment and governance and risk management frameworks are generally adequate but with enhancements required and is therefore reporting a 'amber' rated opinion, with our assessment towards the middle of this category."

In compliance with standard accounting practice, the Head of Finance, of the City of Edinburgh Council has provided the Chief Executive Officer with a statement of the effectiveness of the Group's internal financial control system for the year ended 31st March 2019. It's the Head of Finance's opinion that: "... 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 embedding of actions taken in response to previous recommendations, are still required.

"In this context, I would particularly highlight improvements in train to address a number of systemic weaknesses in respect of payroll-related controls, including those to address historic, and prevent recurring, overpayments."

The Chief Finance Officer of the LPF Group has provided a statement of the effectiveness of the internal financial control system for the year ended 31st March 2019 for the Fund. It is the Chief Finance Officer's opinion "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."



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 2017 to 31 March 2019 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 new human resources strategy specific to LPF Group's requirements and also implement a new learning management system and prioritise 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 ensuring sufficient engagement with colleagues and in particular in light of the prevailing circumstances of the COVID-19 pandemic and the Fund's Digital Strategy and office arrangements
- Digital strategy: To progress the Fund's Digital Strategy and most immediately complete the appointment of a new managed service ICT provider for the Fund
- 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
- 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 by the City of Edinburgh Council is supported in a manner consistent with these duties.



ANNUAL GOVERNANCE STATEMENT

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.

Andrew Kerr

Chief Executive Officer
The City of Edinburgh Council
24 June 2020

Dr Stephen S Moir

Executive Director of
Resources
The City of Edinburgh
Council
24 June 2020

Doug Heron

Chief Executive Officer
Lothian Pension Fund
24 June 2020



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 2020 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.	✓	<p>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:</p> <p>Five City of Edinburgh Council elected members</p> <p>Two external members, one drawn from the membership of the Fund and one drawn from the employers that participate in the Fund.</p>
	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.	✓	<p>The Pensions Committee includes two external places for pension fund stakeholders i.e. one each from the employer and member representatives.</p> <p>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.</p> <p>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.</p> <p>Two members of the Pension Board are invited to attend the Pensions Audit Sub-Committee.</p>



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.	✓	<p>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.</p> <p>Implementation of investment strategy is delegated to the Executive Director of Resources who then delegates to the Head of Finance, who takes advice from the Joint Investment Strategy Panel. The Panel meets quarterly and reports to the Pensions Committee annually.</p> <p>The advisers on the Joint Investment Strategy Panel consists of the Chief Investment Officer and on other portfolio manager of LPFI plus two experienced independent external industry advisers.</p> <p>The Pensions Committee receives annual updates from LPFE and LPFI.</p>
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).	✓	<p>The Pension Board consists of a mix of representatives:</p> <ul style="list-style-type: none"> • 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).	✓	<p>An Independent Professional Observer was appointed in March 2013 to help Committee scrutinise advice. This contract expired in February 2018 and a new Observer was appointed in August 2018.</p>



GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Representation	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✓	<p>As mentioned previously, external investment advisers sit on the Joint Investment Strategy Panel.</p> <p>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.</p> <p>A non-executive director was appointed to the board of LPFI on 7 February 2017 and LPFE on 19 March 2018. A further non-executive director is expected to be appointed to both boards in Q3 2020.</p> <p>An external compliance consultant supports the LPF Group on its ongoing compliance with the Financial Conduct Authority rules, regulations and guidance.</p>
	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.	✓	<p>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.</p> <p>The Pensions Committee takes account of the views of the Pension Board when making decisions.</p>
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.	✓	<p>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.</p> <p>The elected members are required to read, sign and abide by the Councillors' Code of Conduct.</p> <p>The LPF Code of Conduct, approved in December 2019, (which has been specifically updated and tailored for the Pension Committee and Pension Board) will be required to be read and signed by elected and non-elected members prior to their appointment and signed by existing members by June 2020.</p>



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.	✓	<p>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.</p> <p>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.</p>
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.	✓	<p>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.</p> <p>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.</p> <p>LPFI and LPFE board members conduct meetings and other matters in accordance with their respective articles of association and shareholders' agreements.</p>
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.	✓	<p>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.</p> <p>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.</p>
	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.	✓	<p>The Training and Attendance Policy applies to both the Pensions Committee and the Pension Board. Advisers have their own professional development obligations.</p>



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. Due to the COVID-19 pandemic the Pension Committee met three times during the year as the March Committee was cancelled.
	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.	✓	<p>The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times a year with further meetings held if necessary.</p> <p>The Joint Investment Strategy Panel meets quarterly or more frequently as required.</p> <p>The Pension Board attends all the Pensions Committee meetings and separately meets in advance of such meetings. Further meetings are held if necessary.</p> <p>The LPFE board now meet five time a year (in February, May, August, October and December) and the LPFI board at least quarterly.</p>
	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 on the Council's website and 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 holds surgeries ahead of Committee 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.	✓	<p>The Pensions Committee deals with all matters relating to both the administration and investment of the Fund and the LPF Group.</p> <p>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.</p>
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.

Andrew Kerr

Chief Executive Officer
The City of Edinburgh Council
24 June 2020

Dr Stephen S Moir

Executive Director of
Resources
The City of Edinburgh
Council
24 June 2020

Doug Heron

Chief Executive Officer
Lothian Pension Fund
24 June 2020



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 the 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 the Fund. 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 February to 31 January 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. Payment one for assessment year 1 February 2019 to 31 January 2020 and payment two for assessment year 1 February 2018 to 31 January 2019 were made in January 2020.

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.



REMUNERATION REPORT

In accordance with IAS 19, therefore, a liability has been raised as at 31 March 2020 for the two months of service which the employees have delivered with regards to the remaining vested payments in the scheme.

This obligation of LPF to make payments as a result of colleague service delivered up to 31 March 2020 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	2018/19	2019/20	Remuneration Bands	2018/19	2019/20
£50,000 - £54,999	1	1	£105,000 - £109,999	2	2
£55,000 - £59,999	3	1	£110,000 - £114,999	-	1
£60,000 - £64,999	1	1	£115,000 - £119,999	-	4
£65,000 - £69,999	-	1	£120,000 - £124,999	-	-
£70,000 - £74,999	-	1	£125,000 - £129,999	1	-
£75,000 - £79,999	1	-	£130,000 - £134,999	4	-
£80,000 - £84,999	1	-	£135,000 - £139,999	-	1
£85,000 - £89,999	-	1	£140,000 - £144,999	-	-
£90,000 - £94,999	-	-	£145,000 - £149,999	-	-
£95,000 - £99,999	1	-	£150,000 - £154,999	-	-
£100,000 - £104,999	2	-	£155,000 - £159,999	-	5
			Total No. of Employees	17	19



REMUNERATION REPORT

EMPLOYEES REMUNERATION

The remuneration paid to the Fund's senior employees is as follows:

	Total Remuneration 2018/19	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2019/20
Name and Post Title	£000	£000	£000	£000
Doug Heron, Chief Executive Officer (from February 2019)	18	111	25	136
Bruce Miller, Chief Investment Officer	132	109	43	152
Struan Fairbairn, Chief Risk Officer (Head of Legal, Risk and Compliance)	100	85	33	118
John Burns, Chief Finance Officer	102	84	33	117
Helen Honeyman, Head of People and Communications (from January 2020)	-	14	-	14
Total	352	403	134	537

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.

The remuneration paid to our employees whose remuneration during the year exceeded £150,000 is as follows:

	Total Remuneration 2018/19	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2019/20
Name and Post Title	£000	£000	£000	£000
Andrew Imrie, Portfolio Manager	133	108	51	159
Stewart Piotrowicz, Portfolio Manager	132	106	51	157
Jeffrey Saunders, Portfolio Manager	132	102	50	152
Ian Wagstaff, Portfolio Manager	132	106	51	157
Total	529	422	203	625



REMUNERATION REPORT

Senior officers of the City of Edinburgh Council are also fully remunerated via the Council and no additional remuneration is paid by the Fund. 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 2020 remain in the company's employment is as follows:

	Payable January 2021		Payable January 2022
	2019 Payment 3	2020 Payment 2	2020 Payment 3
	£000	£000	£000
Senior Employee Variable Remuneration	33	50	50
Portfolio Manager Variable Remuneration	125	110	110
Employer National Insurance Contribution	22	22	22
Total	180	182	182

Colleague Pension Entitlement

Pension benefits for colleagues are provided through the Local Government Pension Scheme.

For colleagues the Local Government Pension Scheme became a career average pay scheme 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).



REMUNERATION REPORT

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 2019/20 were as follows:

Pensionable Pay (2019/2020)	Rate (%)
On earnings up to and including £21,800 (2018/2019 £21,300)	5.5%
On earnings above £21,800 and up to 26,700 (2018/2019 £21,300 to £26,100)	7.25%
On earnings above £26,700 and up to £36,600 (2018/2019 £26,100 to £35,700)	8.5%
On earnings above £36,600 and up to £48,800 (2018/2019 £35,700 to £47,600)	9.5%
On earnings of £48,800 and above (2018/2019 £47,600)	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 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	
	2018/19	2019/20		As at 31 March 2020	Increase from 31 March 2019
Name and post title	£000	£000		£000	£000
Doug Heron, Chief Executive Officer (from February 2019)	4	32	Pension	-	-
			Lump Sum		
Bruce Miller, Chief Investment Officer	27	32	Pension	32	3
			Lump Sum	30	2
Struan Fairbairn, Chief Risk Officer (Head of Legal, Risk and Compliance)	21	25	Pension	12	2
			Lump Sum	-	-
John Burns, Chief Finance Officer	21	25	Pension	44	2
			Lump Sum	79	1
Helen Honeyman, Head of People and Communications (from January 2020)	-	4	Pension	-	-
			Lump Sum	-	-
Total	73	118			

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	
	2018/19	2019/20		As at 31 March 2020	Increase from 31 March 2019
Name and post title	£000	£000		£000	£000
Andrew Imrie, Portfolio Manager	26	31	Pension	26	3
			Lump Sum	16	1
Stewart Piotrowicz, Portfolio Manager	26	31	Pension	20	3
			Lump Sum	-	-
Jeffrey Saunders, Portfolio Manager	-	-	Pension	-	-
			Lump Sum	-	-
Ian Wagstaff, Portfolio Manager	26	31	Pension	18	3
			Lump Sum	-	-
Total	78	93			



REMUNERATION REPORT

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 2019/20 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.

Andrew Kerr

Chief Executive Officer
The City of Edinburgh Council
24 June 2020

Dr Stephen S Moir

Executive Director of
Resources
The City of Edinburgh
Council
24 June 2020

John Burns

Chief Finance Officer
Lothian Pension Fund
24 June 2020



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](#)
- [Pension Administration Strategy](#)
- [Communications Strategy](#)
- [Funding Strategy Statement](#)
- [Service Plan](#)
- [Training and Attendance policy](#)

Fund advisers

Actuaries:	Hymans Robertson LLP, Exchange Place One, 1 Semple Street, Edinburgh, EH3 8BL
Bankers:	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh, EH2 2YB
Strategic advisers:	Gordon Bagot and Scott Jamieson
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 Prudential plc, 1 Angel Court, London, EC2R 7AG
Property valuations:	CB Richard Ellis Limited, St Martin's Court, 10 Paternoster Row, London, EC4M 7HP
Property Management and Property Fund Accounting:	JLL, 40 Bank Street Canary Wharf London E14 5EG
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 tape, in Braille, large print and various computer formats on request. Please contact the Interpretation and Translation Service (ITS) on 0131 242 8181 and quote reference number 00819. The 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 the details on the back page if 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 given 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 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 and Senior Management Team agendas, with progress in implementation also regularly reported to the Governance, Risk and Best Value Committee.
3. In view of successive years' staffing reductions and various resulting changes in responsibilities, the self-attestation exercise undertaken early in 2018 was helpful in assessing the extent to which previous improvements had 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 Resources Directorate, by quarterly Service Performance and Assurance meetings 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 September 2019. While noting some opportunities for improvement and a need, in some cases, to embed previously-agreed actions, this assessment concluded that the system of internal financial control was well-designed, with no significant deficiencies in its design, implementation or operation. A [follow-up progress report](#) was considered by the Committee in January 2020, with a further update due in July.
5. As part of the Accounts Commission's national studies, an assessment was also reported in May 2020 of the Council's arrangements for the **prevention and detection of fraud in procurement**. 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 has now been 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

6. 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 2019/20, the section reported to the Head of Legal and Risk. It also has, however, unfettered access to the Chief Executive, Executive Directors, Heads of Service (including the Head of Finance) and elected members of the Council when required.
7. **The Chief Internal Auditor will present her 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 August 2020.** Due to COVID-related disruption and in-year delivery challenges, however, the opinion will necessarily be limited and based upon completion of 70% of the 2019/20 audit plan, subject to the receipt of requested support from Directorates. The Chief Internal Auditor is currently engaging with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) (who jointly authored the PSIAS) and other Scottish Local Authority Chief Internal Auditors to ensure that the approach to the annual opinion is aligned with any relevant guidance and other Scottish local authorities.
8. With this caveat, given the assessment in the last two years, the opinion is expected to highlight a continuing need for enhancements to the control environment and associated governance and risk management frameworks. The required control improvements implicit in this opinion will be examined and any corresponding required actions (as they relate to financial systems) implemented as a matter of urgency.

Elements of system of internal financial control

9. 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. 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.** An in-year revenue budget-setting and management internal audit identified a number of areas of good practice but with opportunities for improvement highlighted through the adoption of standardised documentation and procedures and regularising formal “lessons learned” exercises after each year’s process, with an action plan agreed. I am also conscious of significant reductions in recent years in the proportion of service-specific savings subsequently delivered and have put in place arrangements both to provide additional project management resource for more material and/or transformational savings projects and strengthen more general officer and elected member scrutiny at the proposal inception,

development and implementation stages. *While analysis of the provisional year-end position remains on-going, monitoring reports considered by the Finance and Resources Committee during 2019/20 encouragingly pointed to a marked increase in delivery compared to 2018/19;*

- **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 outturn. Based upon the provisional outturn, however, despite the approval at the eight-month stage of additional earmarked reserve funding of £7.9m, this was not achieved in 2019/20 (the first time for thirteen years), with an overall overspend of £5.2m. It should nonetheless be stressed that this outturn also reflects £7.9m of unfunded COVID-related impacts that only became apparent in the last month of the financial year;
- **clearly-defined capital and other expenditure guidelines** communicated to services and set out in the [Finance Rules](#) which were refreshed in June 2019. The [Financial Regulations](#) were also reviewed and minor amendments to their content approved in June 2019;
- a **three-year revenue budget and ten-year capital budget strategy** approved by Council in February 2020;
- **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 and consolidation and active consideration by senior Council officers of a consistent suite of key operational documentation for its principal companies. Service Level Agreements are also in place for finance-related services provided to a range of external bodies.

10. 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.

11. 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 **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 embedding of actions taken in response to previous recommendations, are still clearly required.** In this context,

I would particularly highlight continuing required improvements to address a number of systemic weaknesses in respect of payroll-related controls, particularly those to address historic, and prevent recurring, overpayments.

12. 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 none outstanding at this time and a number of others 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 during the current COVID pandemic and, in the vast majority of cases, performed well.
13. While its primary impacts are being felt in 2020/21, it would be remiss of me not to make mention of the profound implications of the pandemic on the Council's financial position. As with other public sector organisations, the position is highly fluid, with additional details emerging almost daily. I have, however, sought to be proactive in acknowledging these impacts and put in place a number of corresponding measures to mitigate the corresponding risks, including:
 - **Introducing, from late March, monthly reporting to both CLT and the Policy and Sustainability Committee** on the additional expenditure and reduced income impacts on the Council and its ALEOs under a number of scenarios. Taking into account these forecasts, delivery of approved savings, management of residual pressures and analysis of reserve and other funding, it is intended to develop a revised balanced budget by the autumn;
 - **commencing work to review the impact in terms of timing and cost on the Council's ten-year capital budget strategy and likely achievability of later years' revenue savings approved in February**, in each case emphasising the likely need for further prioritisation to maintain financial sustainability;
 - **overseeing the system of internal controls put in place in respect of a number of newly-introduced funding streams**, including business grants and self-employment payments, as well as **ensuring an appropriate balance is struck between critical service continuity and securing best value with regard to granting any supplier relief**; and
 - **ensuring all finance-related risks are captured and actively monitored** as part of the Council's COVID risk management plan.

Hugh Dunn
Head of Finance
31 May 2020

**Annual Report 2020
of
Lothian Pension Fund
and
Scottish Homes Pension Fund**

**“Statement on the system of internal financial control
for the year ended 31 March 2020”**

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”. The Head of Finance serves as the Section 95 Officer for all of the Council’s accounting arrangements, including those of the Lothian Pension Fund and Scottish Homes Pension Fund. For the Pension Funds, however, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund.

In compliance with standard accounting practice, the Chief Finance Officer, Lothian Pension Fund, is required to provide the Chief Executive with a statement of the effectiveness of the internal financial control system of the Funds for the year ended 31 March 2020.

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” by Hugh Dunn, Head of Finance, City of Edinburgh Council, dated 31 May 2020, 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;
- 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 Chief Internal Auditor has provided an “Internal Audit Annual Report and Opinion for the year ended 31 March 2020”, in accordance with the requirement set out in the Public Sector Internal Audit Standards. This opinion, based on internal audit work undertaken during the year, concludes that “the LPF control environment and governance and risk management frameworks are generally adequate but with enhancements required.” Requisite actions are being progressed to secure such control improvements, including affirmation as to the ongoing integrity of supplier systems.

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.

**John Burns, FCMA CGMA, PgC
Chief Finance Officer,
Lothian Pension Fund**

8 June 2020