



Pensions Committee

2.00pm, Wednesday, 17 March 2021

Operating Plan and Budget for 2021/22

1. Recommendations

The Pensions Committee is requested to:

- 1.1 approve the updates to the Operating Plan for 2021-22;
- 1.2 approve the future review of the generic Operating Plan on a triennial basis;
- 1.3 approve the budget for 2021-22; and
- 1.4 note the indicative budget for 2022-23.

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Operating Plan and Budget for 2021 – 22

2. Executive Summary

- 2.1 The 2021-22 Operating Plan (of which we are in year two) provides details of the Lothian Pension Fund's (LPF) priorities over the coming financial year. It also sets budget and performance targets for the service.

3. Background

- 3.1 LPF's Operating Plan has been reviewed to ensure its key performance indicators and goals are up-to-date, clear, challenging and achievable.

4. Main Report

- 4.1 The Operating Plan for 2021-22 is provided as Appendix 1.
- 4.2 The 2021-22 Operating Plan provides a clear path for the future. There are six strategic goals, each with its own set of sub-goals and measures. Ultimately, these goals and measures translate into the work LPF will continue to do in the year and form the basis of the 2021-22 Operating Plan. The goals are:
- Benefit security and affordability
 - Reduce complexity
 - Manage our risks
 - Create a place where great work happens
 - Influence the LGPS of the future
 - Be responsible
- 4.3 There have not been any changes to the strategic goals or the sub goals. A few of the sub goals targets and measures have been adjusted to reflect progress since the plan was written in 2020 and to reflect that our community and wellbeing activities have transitioned to online due to coronavirus restrictions.
- 4.4 The Fund's values remain as follows:
- **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.

- 4.5 Following the fundamental review of the Operating Plan in 2020 (formerly Service Plan), it was initially envisaged that this should be comprehensively revisited on a biennial basis. It is now proposed, however, that a triennial review of the generic Operating Plan would enable appropriate strategic focus, as well as maintaining agility. Annual updates to the Operating Plan to reflect specific initiatives and realignment of targets to best align LPF services to dynamic circumstances would still be provided to Committee for approval.
- 4.6 The proposed budget for 2021-22 is included in Appendix 2, together with an indicative budget for 2022-23. The main points to note are summarised below.

5. Financial impact

- 5.1 The proposed budget represents a £1,388,000 decrease to the comparable 2020-21 budget. The key changes are as follows:

5.1.1 Employees

£127k decrease on last year's budget and substantially lower than last year's indicative 2021-22 budget. Changes of note being -

- £402k decrease in employer pension contributions for the period, mainly due to the fall in contribution rate from 30.4% to 18.1% as a result of 2020's actuarial valuation.
- In preparation of the expected increase in administration workload from McCloud judgement, 5 additional trainee pensions admin post and a project manager role have been included in the budget.

5.1.2 Plant and Transport

- Decrease in budget of £245k with elements of the expected office move removed. Potential office move has been tentatively included in the 2022-23 indicative budget.
- With ongoing pandemic travel budget has been reduced on previous years.

5.1.3 Supplies and Services

£177k increase on last year's budget. Changes of note including -

- Increased number of software licenses required for front office staff as well as a one-off system update cost for the Charles River investment management system.
- Miscellaneous general ICT costs removed as centralised in new ICT providers contract.

5.1.4 Investment Management

- £1,400k decrease in relation to invoiced fees. This is the result of the divestments from external equity mandates that took place in 2020-21 financial year.
- Uninvoiced costs remain the same. Holdings in Private Equity are falling as investments realised, however offset by expected increase (in budget) for both broker/market cost and property transaction costs.

5.1.5 Support Costs

£166k increase on last year's budget including -

- Full year provision for new ICT provider plus parallel running and exit costs for CGI contract.
- Budget also includes service level agreement with CEC, covering a time allocation for Resources management team, Internal Audit, Procurement, Mail and Financial systems.
- Channel shift to offsite mail scanning and indexing service conducted by CEC team at the Clocktower now included in SLA.

5.1.6 Capital Funding

No change in budget expected. The removal of expected office move costs offset by Atria One refurbishment and various setup costs for ICT services.

5.1.7 Income

- Expected decrease in Securities lending due to Fund using custodian recall service to ensure full voting rights at company AGM's.
- Increased income forecasted through recharge mechanism reflecting the anticipated increase of assets under in house management from equity mandates

5.1.8 Capital expenditure

- Capital expenditure for potential office move removed from 2021-22 budget and tentatively included in 2022-23.

- Updated setup costs for new ICT provider included, with transition expected to be completed July 2021.

6. Stakeholder/Regulatory Impact

- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

- 7.1 None.

8. Appendices

Appendix 1 – Draft Lothian Pension Fund Operating Plan 2021-2022

Appendix 2 – LPF Group Budget 2021-22 (indicative 2022-23)



OPERATING PLAN

2021 – 2022

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FOREWORD

About us

Lothian Pension Fund (LPF) has been around in its current form since 1975 and has helped more than 75,000 local government workers and their families to experience a financially secure retirement. We expect to be here to provide for the beneficiaries of the youngest members of our Fund today, and so we need a plan that sets out how we'll achieve the sustainability that such multi-generational obligations require.

We administer the LGPS in Edinburgh and the Lothians and are one of more than a hundred local government pension scheme (LGPS) funds in the UK and we're the second-largest LGPS fund in Scotland. We're an asset-backed and multi-employer scheme with around £8billion of assets and at our last valuation in 2017 we were 98% funded. We serve 84,000 members and 90 employers.

Secure benefits

The benefits that we administer are protected by statutory provisions. That means earned pension benefits from past service are as secure as other Government-backed commitments. The future benefits could be amended by changes to the LGPS and this could result from: a change in policy towards public sector pensions; affordability concerns; or to ensure they remain fair for all beneficiaries.

A changing world

The world surrounding us is changing and the opportunities to become more efficient and easier to deal with as a result of technology advances are more accessible than ever before. Our members have high expectations of all organisations they interact with when it comes to being straightforward to deal with, courteous and professional always, and consistent in delivering on the promises we make. Although membership of the LGPS is bundled with their eligible employment, we must never become complacent or feel that members will tolerate second best service for guaranteed benefits.

The employers who sponsor our members are changing too. The benefits of LGPS are valuable but come at cost to employers, many of whom are contending with financial constraints. The benefit to employers of providing the LGPS to their people must continue to be greater than the cost to them of that membership or we face a threat to the long-term future of the LGPS.

But it's in the investment markets where we see a rate of change greater than at any time in our past. The activity of investing in assets for returns that will exceed inflation in the long-term has always relied on judgement, manager skill, diversification and patience. Today is no different, but judgement, management and patience are especially challenged by climate risk assessment and other environmental, social and governance issues and the distribution of information and misinformation in this age of social media. We must exercise our fiduciary duty to provide benefits for members and their sponsoring employers with due awareness of the complex dynamics of investing in a changing world.

Our operating plan

Our passion and energy come from our motivation to deliver for our members. The following pages set out a summary of our operating plan.

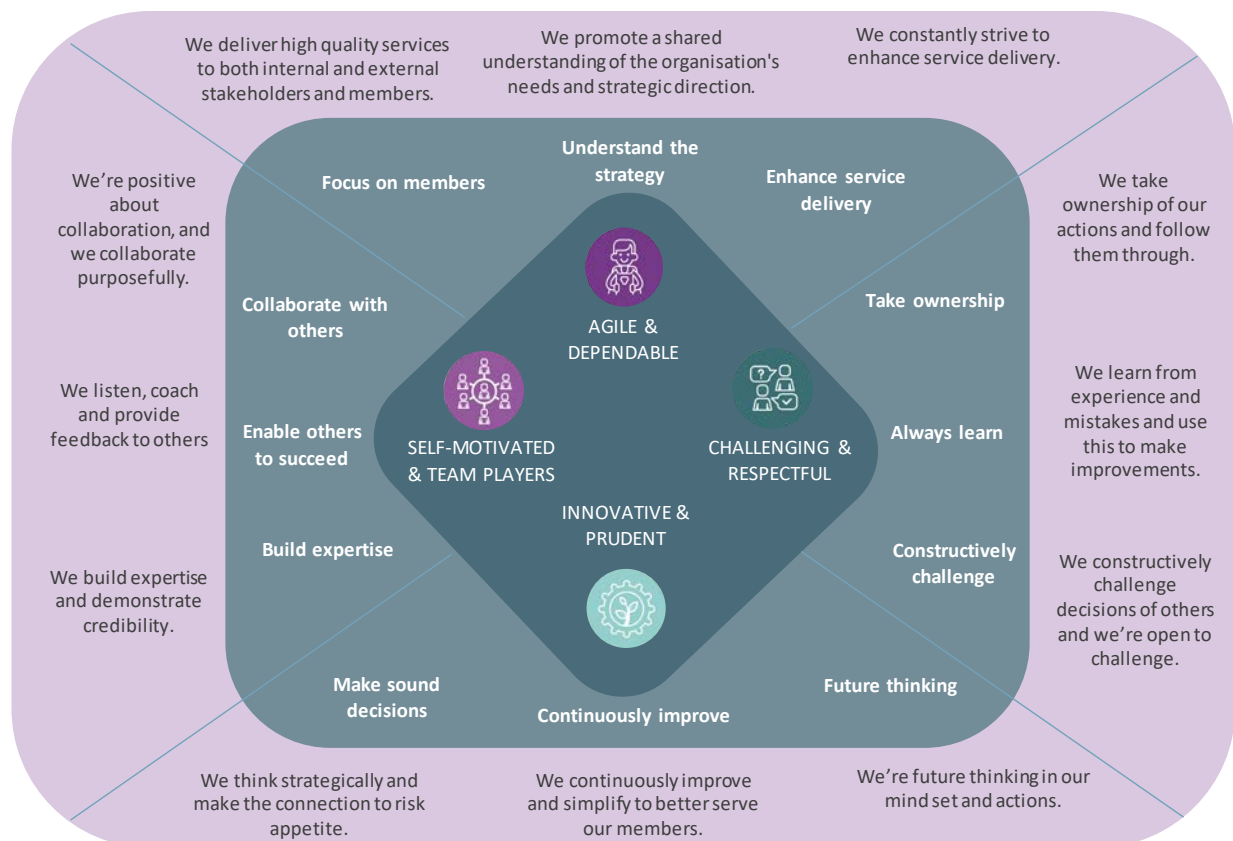
INTRODUCTION

Our vision

To deliver a valued and sustainable retirement savings product for existing and future members of Lothian Pension Fund.

Our core values

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



Our planning process

Our planning process begins and ends with a focus on our members through an ongoing feedback loop of listening to our members when we engage with them on administration matters and in asking for feedback through our complaints and compliments process. Our CEO holds focus group sessions with invited members to understand the relevance of the Fund in their lives and how they wish to see us develop. The Senior Leadership Team (SLT) of the Fund also engaged with other stakeholders in a listening exercise to understand their expectations. The various notes, ideas and inspiration from these consultations provided the core inputs and the SLT worked together to develop the 2021 - 22 Operating Plan which was presented to and approved by our Pensions Committee in March 2020 on behalf of our members and employers.

The plan centres around six broadly defined strategic goals, each with more detailed objectives and accompanying targets and measures to allow us to monitor our progress and identify where interventions may be required. This forms the basis of the work ahead of us and we look forward to reporting on our findings.



OPERATING PLAN GOALS

Provide secure and affordable benefits for our members



- Deliver sufficient investment returns over the long term to meet funding targets
- Work with employers to deliver investment strategies appropriate for their finances
- Operate an effective system of controls and governance to safeguard our assets
- Maintain accurate data to ensure our benefits obligations are accurately costed

Reduce complexity



- Eliminate complexity and unnecessary friction in internal processes across the Fund
- Make it easy for members to deal with us
- Operate with clear information accessible across multiple channels
- Work with our employers to reduce administrative strain in supporting their employees

Manage our risks



- Cultivate a risk-aware culture with clear accountability and ownership of risks
- Develop technology and operational resilience to protect data and service continuity
- Maintain multi-layer assurance arrangements to proactively identify and resolve threats
- Demonstrate to our stakeholders that our appetite for risk is appropriate

Create a place where people do great work



- Grow a high-performing and inclusive workforce
- Empower a broad range of talents to meet organisation priorities
- Cultivate leadership competencies and develop succession plans across the team
- Create an employer brand and culture that inspires our connected communities

Influence the LGPS of the future




- Be part of a sustainable scheme now and work to safeguard its future
- Deliver reliable and impartial advice to policy-makers on a reactive and proactive basis
- Demonstrate the power of collaboration through success of investment partnerships


Be responsible



- Continue to integrate ESG into our investment processes
- Demonstrate good stewardship of assets owned
- Seek to have a positive impact on the economy and society
- Give our people capacity and encouragement to contribute to our communities

 PROVIDE SECURE AND AFFORDABLE BENEFITS FOR OUR MEMBERS			
What	Deliver sufficient investment returns over the long term to meet funding targets		
Why	To demonstrate benefits are sustainable and affordable		
Target	Maintain	Outperform	< 0.1% of fund
Measure	A funding level in excess of 90% on actuarial basis	Asset returns on 5yr view versus valuation discount	Default rate on employer liabilities for year
What			
	Work with employers to deliver investment strategies appropriate for their finances		
Why	To protect against return volatility for employers		
Target	100% of employers		
Measure	In a suitable investment strategy for their membership profile and covenant		
What			
	Operate an effective system of controls and governance in investment management		
Why	To safeguard the assets we hold for our members		
Target	100% of fund assets		
Measure	Subject to effective oversight, reconciled and held in secure safe custody		
What			
	Maintain accurate data to ensure our benefits obligations are accurately costed		
Why	To ensure accurate funding levels are measured and benefits paid		
Target	Meet or exceed		
Measure	Standards set by The Pensions Regulator		


 REDUCE COMPLEXITY			
What	Eliminate complexity and unnecessary friction in internal processes across the Fund		
Why	To deliver efficient administration and contain the drag of cost on funding levels		
Target	Maintain	Operate within	Investigate and plan for
Measure	A position of low cost / high quality in relevant benchmarks	Our approved budget for controllable costs	The move to paperless administration
What			
Make it easy for members to deal with us			
Why	To promote engagement with pension fund and increase perceived value		
Target	> 90%	Retain	Retain
Measure	Member satisfaction score by survey	Accreditation with CSE	Accreditation with PASA
What			
Operate with clear information accessible across multiple service channels			
Why	To improve digital capability		
Target	+10%	+10%	-10%
Measure	Increase in visitors to web on prior year	Increase in registered users for member self-service	Reduction in simple queries by telephone call
What			
Work with our employers to reduce administrative strain in supporting their employees			
Why	To improve employer experience		
Target	Meet or exceed		
Measure	Employer expectations in our annual survey		


 MANAGE OUR RISKS			
What	Cultivate a risk-aware culture with clear accountability and ownership of risks		
Why	To protect our stakeholders from financial or reputational loss		
Target	100%		
Measure	Risks outside of appetite to have a resolution plan within three months of rating		
Develop technology and operational resilience to protect data and service continuity			
What	Develop technology and operational resilience to protect data and service continuity		
Why	To protect our stakeholders from financial or reputational loss		
Target	Plan for	Migrate to	100% coverage
Measure	Plan and begin work for accreditation under CyberEssentials	Dedicated ICT provision for Fund	Of relevant service KPIs reviewed at oversight body
Maintain multi-layer assurance arrangements to proactively identify and resolve threats			
What	Maintain multi-layer assurance arrangements to proactively identify and resolve threats		
Why	To protect our stakeholders from financial or reputational loss		
Target	Achieve	At least 80 days	
Measure	Unqualified opinion from an external auditor	Of assurance work	
Demonstrate to our stakeholders that our appetite for risk is appropriate			
What	Demonstrate to our stakeholders that our appetite for risk is appropriate		
Why	To protect our stakeholders from financial or reputational loss		
Target	Unqualified approval		
Measure	Of our risk register by our Pensions Committee		



CREATE A PLACE WHERE PEOPLE DO GREAT WORK

What	Continue to grow a high-performing, engaged and inclusive workforce		
Why	To be a responsible employer driving a focus on our members		
Target	> 70%		
Measure	Employee engagement index		
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What	Empower a broad range of talents to meet organisation priorities		
Why	To create a resilient and capable workforce		
Target	> 70%		
Measure	Our enablement index		
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What	Cultivate leadership competencies and develop succession plans across the team		
Why	To inspire our people and generate resilience in our organisation		
Target	100%	100%	<10%
Measure	Of critical roles with Board approved succession plan	Of people leaders with personal development plans	Unplanned employee turnover
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What	Create an employer brand and culture that inspires our connected communities		
Why	To be responsible and influence positive outcomes		
Target	Minimum of 5	Zero	Support
Measure	Eligible candidates per vacancy	Vacancies unfilled within three months of posting	Initiatives for inclusion

 INFLUENCE THE LGPS OF THE FUTURE	
What	Be part of a sustainable scheme now and work to safeguard its future
Why	To safeguard our members interests
Target	Actively demonstrate and influence
Measure	The value of LGPS benefits in providing public services in Scotland
What	Deliver reliable and impartial advice to policy-makers on a reactive and proactive basis
Why	To safeguard our members' interests
Target	100%
Measure	Of relevant requests for consultation input responded to with informed and objective views
What	Demonstrate the power of collaboration through success of investment partnerships
Why	To improve sustainability of the LGPS in Scotland
Target	> 7
Measure	Other funds investing alongside Lothian in private markets / participating in Scottish Asset Owner Responsible Investment group

 BE RESPONSIBLE			
What	Continue to integrate ESG into our investment processes		
Why	To play our part in managing financial risk and creating positive outcomes		
Target	100%	Embed	Retain
Measure	Equities measured for carbon intensity within three years	ESG considerations embedded across all our investment processes	PRI accreditation
What			
Demonstrate positive outcomes achieved as an owner of assets			
Why	To provide assurance to our stakeholders on our commitment to being responsible		
Target	Minimum of two		
Measure	Issues of 'LPF Engage' in each calendar year with no material adverse feedback		
What			
Seek to have a positive impact on the economy and society			
Why	To create positive outcomes where we can		
Target	100%		
Measure	Realisation of credible investment opportunities		
What			
Give our people capacity and encouragement to contribute to our communities			
Why	To promote diversity and wellbeing and be a responsible employer		
Target	Targeted interventions and support of local, UK and global initiatives with targeted learning and fundraising		
Measure	Colleague participation in LPF supported events and initiatives		

APPENDIX 1: OUR SERVICE PERFORMANCE INDICATORS

Measure	Target
Monthly pensioner payroll paid on time	100%
Acknowledge the death of a member to next of kin within 5 working days	96%
Employer contribution paid within 19 days of month end	99%
Estimate requested by employer of retirement benefits within 10 working days	91%
Notification of dependant benefits within 5 working days of receiving all necessary paperwork	96%
Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service	91%
Notify members holding more than 3 months, but less than 2 years' service, of their options at leaving. As there is a one month and a day lying period, the target is within 10 days of the end of the lying period or after the employer providing full leaving information if later	85%
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form	91%
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation	96%
Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member	96%
Payment of CETV within 20 working days of receiving all completed transfer out forms	96%
Pension Admin Workflow – Non-key Procedures Performance	75%
Proportion of critical pensions administration work completed within standards – individual performance within this indicator are shown below	92%
Proportion of members receiving a benefit statement by August	100%
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	91%
Provide new members with scheme information within 20 working days of getting details from employer	100%
Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider	96%
Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	96%
Level of Sickness Absence	<4%
A minimum of two days training for all staff for the year	100%

LPF Group Budget

The budget for 2021-2022 and indicative for 2022-2023 are as follows:

	Budget 2020-21 £000	Movement £000	Proposed Budget 2021-22 £000	Indicative Movement £000	Indicative Budget 2022-23 £000
Employees	5,986	(127)	5,859	287	6,146
Plant and Transport	499	(245)	254	260	514
Supplies and Services	2,115	177	2,292	(180)	2,112
Third Party Payments	1,495	(69)	1,426	10	1,436
Investment Managers Fees - Invoiced	4,700	(1,400)	3,300	200	3,500
– Uninvoiced*	18,700	-	18,700	-	18,700
Support Costs	519	166	685	(157)	528
Capital Funding	249	-	249	18	267
Gross Expenditure	34,263	(1,498)	32,765	438	33,203
Income – Securities Lending	(550)	150	(400)	-	(400)
- Collaboration	(1,702)	(40)	(1,742)	(250)	(1,992)
- Other	(90)	-	(90)	-	(90)
Total Income	(2,342)	110	(2,232)	(250)	(2,482)
Net Expenditure	31,921	(1,388)	30,533	188	30,721

*Note budgeted figures do not include performance fees

Investment Managers Fee Contingency	10,000	-	10,000	-	10,000
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Capital Expenditure

LPFI Share Capital	130	(130)	-	-	-
ICT Service Provision	150	56	206	(206)	-
New Office Premises	367	(367)	-	367	367
Total Capital Expenditure	647	(441)	206	161	367

LPF Group Budget

The budget for 2021-2022 is comprised thus:

	2021-22 Indicative Budget LPF Group £000	Change £000	2021-22 Proposed Budget LPF Group £000	2021-22 Proposed Budget LPF £000	2021-22 Proposed Budget LPFE Ltd £000	2021-22 Proposed Budget LPFI Ltd £000
Employees	6,306	(447)	5,859	24	5,808	26
Plant and Transport	410	(156)	254	233	21	-
Supplies and Services	2,115	220	2,292	1,949	201	142
Third Party Payments	1,445	(19)	1,426	911	-	515
Investment Managers Fees - Invoiced	4,900	(1,600)	3,300	3,300	-	-
- Uninvoiced	18,700	-	18,700	18,700	-	-
Support Costs	374	234	685	685	-	-
Capital Funding	169	80	249	249	-	-
Gross Expenditure	34,419	(1,653)	32,765	26,052	6,030	684
Income – Stock Lending	(550)	150	(400)	(400)	-	-
- Collaboration	(1,802)	67	(1,742)	(90)	(25)	(1,717)
- Other	(90)		(90)	(90)	-	-
Total Income	(2,442)	217	(2,232)	(490)	(25)	(1,717)
Intra-group transfers	-		-	5,269	(6,218)	959
Net Expenditure	31,977	(1,436)	30,533	30,820	(213)	(74)