

Pensions Committee

2.00pm, Wednesday, 28 September 2022

Business Plan and Budget Update

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note progress of the Fund against the 2022-23 Strategy and Business Plan, together with specific updates on:
 - Annual Benefit statements;
 - performance indicators;
 - membership and cashflow monitoring; and
 - Investment strategy update.
- 1.2 delegate the approval of the Stewardship Code to the Convenor of the Pension Committee subject to Committee review prior to the approval.
- 1.3 endorse the nomination of John Anzani to the Executive Committee of the LAPFF
- 1.4 note the appointment of Councillor Mandy Watt to the Local Government Scheme Advisory Board (SAB).

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Business Plan and Budget Update

2. Executive Summary

- 2.1 The purpose of this report is to provide an update on progress against the 2022-2023 Business Plan, performance indicators and the actions to enable the Fund to meet its key objectives.

3. Background

- 3.1 The 2022-2023 Business Plan centres around four 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.

They are:

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

- 3.2 The Plan forms the basis of the work ahead of the Fund in 2022-2023 and will be reviewed each year.

4. Main Report

- 4.1 Progress of particular note made against the 2022-2023 Business Plan since the last update to Committee is shown below.

Performance Indicators

- 4.2 Committee will recall there is a new range of performance indicators set out in the Business Plan 2022-2023. These including a wider range of new measures as well as those key indicators from previous years. The Appendix shows the quarterly and year to date for the key indicators. Items of note include:

Pension Administration performance indicators

- 4.3 Overall, we are achieving most of our performance indicators with a couple only a small margin below at this stage. This year we have seen some fluctuations in volumes for some of our key categories of service. In order to deliver our high

standards of service, we have been undertaking further upskilling sessions across the teams so that we can meet the levels of demand, we have increased our scalability by developing a flexible resource pool and training our new recruits on specific work types so that they can contribute earlier towards the operational performance of the teams. We have also been developing our digital proposition to allow members to access their information and figures on a self-service basis and in turn, providing an additional choice of channel that is flexible and easy to use.

- 4.4 The Head of Service is developing a service excellence plan that seeks to build on the current strong performance with the intention of sharing this plan in December.

Annual Benefits Statements

- 4.5 Each year, employers provide membership data to allow the Fund to meet The Pension Regulator's statutory deadline of issuing annual benefit statements by the end of August. 98.57% of employers provided data by the deadline of 19 April. All returns were in by 20 April 2022.
- 4.6 54,691 annual benefit statements were produced representing 100% of the requirement. Included in this total are 20,114 deferred members where 100% of records have been issued with an annual benefit statement. For the first time, for members where we hold an email address, an electronic newsletter was emailed to the member in place of a printed newsletter being posted to the members home address. For deferred members, this was 10,841 members and for actives, this was 14,661 members. For 1,207 deferred members (at date of running), the Fund does not hold a current address and has been unable to send newsletters to these members. This represents 6% of the deferred membership. As in previous years, we are using a specialist tracing company in our efforts to trace these members.
- 4.7 A separate update on data quality will be provided to the Audit Sub-Committee in December.

Member Tracing

- 4.8 LPF continues to benefit from The National LGPS (Procurement) Framework for Member Data Services. The framework offers an extensive range of services including address tracing and correction and mortality screening.
- 4.9 The Fund carry's out tracing on deferred members as well as pensioners using several external sources. As at 31 March 2022, 2,091 members were classed as gone away of which 1285 are deferred.
- 4.10 Details of 1762 members were provided to our external tracing provider in February 2022. This included deferred members, pensioner members and unpaid refund members who were classed as gone away. Results identified 775 members with a high level of confidence as either living at the address we held or at a new address. These have been followed up on an individual member basis. There were a further

348 cases where we have potential telephone numbers for. The team are now working through these cases to obtain a new address and following up with a telephone call where no address can be identified.

- 4.11 As at 30 June 2022 there were 1171 deferred records marked as gone away. The team are continuing to work through the gone away cases and a further update will be provided to Committee in due course.

Accreditation

- 4.12 Following the yearly review on 16 March 2022 Lothian Pension Fund successfully retained the [Customer Service Excellence Standard](#). CSE has four ratings – non compliant, partial compliant, compliant or compliant plus. The assessor was very complimentary about our services and awarded a further two compliant pluses: (i) Engage and Involve Customers (retained) (ii) Corporate Commitment to Service Delivery (retained) (iii) Information Channels and (iv) Beneficial Partnerships

Digital transformation of services

- 4.13 Active, deferred and early leavers (retirements, refunds and transfers out to a new pension provider) members can now complete the entire process through their My Pension Online account. Lothian Pension Fund are the first fund in the UK to introduce this process in our live service. The average turnaround time to process pension payments has reduced considerably. For example, the average turnaround time to send retirement information and process the pension payments of the MSS online retirements was 7 days. In comparison the turnaround time to process paper cases was 70 days.

McCloud

- 4.14 The McCloud remedy seeks to rectify the unlawful discrimination which occurred when the LGPS (Scotland) changed from a final salary scheme to a Career Average scheme on 1 April 2015. When the scheme changed, a protection called the underpin was put in place to protect those approaching retirement. This was deemed unlawful and as a result the underpin protection now applies to a larger group of members. For these members we must check that the final salary benefits the member would have received, had the scheme not changed, are not greater than the Career Average benefits for the same period. Where the final salary benefits are greater, an underpin amount will be applied to the members benefits. The remedy can cover both active members and those who have left the scheme.
- 4.15 Work has begun on prepping data requests to send to employers. The Fund is required to validate the service histories we hold for members with what their employers holds. This will ensure that the underpin calculation is accurate. The Fund is also receiving updates to the pensions administrations software, delivered by Heywood, to ensure the relevant tools are in place to deliver the McCloud remedy.

These so far include - a report to identify those members in scope, the McCloud rectification screen and the age 65 final pay capture on i-connect.

Pensions Dashboard Programme

- 4.16 The UK Government established the Pensions Dashboard Programme to develop the UK pensions dashboard ecosystem. Their vision is “to enable individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement and growing financial well-being.” Lothian Pension Fund has provided responses to consultations on draft Pension Dashboard Regulations and Pension Dashboard Standards, in February and August respectively, through membership with the Pensions and Lifetime Savings Association. Lothian Pension Fund, as a data provider, will be compelled to supply data to the ecosystem by the proposed date of September 2024. An Integrated Service Provider will be needed to facilitate the Funds connection to the Pensions Dashboard ecosystem and an exercise to procure this service is due to commence.

The LGPS (Scotland) (Miscellaneous Amendments) Regulations 2022

- 4.17 The amendment regulations changed the rules for calculating pre-April 15 survivor pensions in response to two court cases: Walker v Innospec and Goodwin v Department for Education. The changes improve the calculation for surviving same-sex civil partners, survivors of married same-sex couples and male survivors of female married members and places these survivors in a similar position to female survivors of opposite sex marriages.
- Generally, this means that:
- where the marriage / civil partnership takes place after the member leaves the Scheme, we will use membership the member built up on or after 6 April 1978 to calculate the survivor pension
 - where the marriage / civil partnership takes place before the member leaves the Scheme, we will also use membership the member built up before 6 April 1978
 - the changes apply to deaths on or after 5 December 2005

Membership and Cashflow monitoring

- 4.18 Tables detailing the cashflows as at the end of July 2022 and projections for the financial year are shown in Appendix 1. These have been prepared on a cashflow basis (compared to the accruals basis of the year-end financial statements and budget projections).
- 4.19 In general, 2022/23 projected cashflows are in line with last year's actuals. As is expected with Lothian Pension Funds' maturing membership profile, pensioner payments are expected to increase over the period as pensioner numbers grow. The largest movement against prior relates to transfers from other schemes. 2021 included a one-off event where an employer, Visit Scotland, centralised its membership into Lothian Pension Fund. A majority of this transfer was reflected in

the 2020/21 period, however due to the late receipt of one of the payment tranches, some of this income is reflected in the 2021/22 figures.

- 4.20 Excluding one off exercises like the Visit Scotland transfer, for the foreseeable future Lothian Pension Fund expects to have a negative cash flow position, whereby pension payments exceed total contributions received. As current levels of investment income provide multiple cover for negative net pensions cash flow. No asset sales will be required for the foreseeable future to fund on going pensioner payments.

Investment Strategy Update

- 4.21 The Fund's main investment strategy is presented in the table below. The target allocations and permitted ranges were agreed by the Pensions Committee in June 2021, and this long-term strategy is expected to remain in place until at least the next actuarial valuation in 2023 when it will be reviewed again. The actual allocations and their deviations from target are the latest estimates at 31 August 2022.

Main Strategy Policy Group	Range	Percentages		
		Target	Actual	Deviation
Equities	50-70	60	59.9	-0.1
Real Assets	10-30	20	18.6	-1.4
Non Gilt Debt	0-20	10	7.7	-2.3
LDI (Gilts)	0-20	10	6.0	-4.0
Cash	0-15	0	7.7	7.7
TOTAL		100	100.0	0.0

- 4.22 The policy group allocations are monitored by the internal team with additional oversight by the Joint Investment Strategy Panel (JISP), which meets at least quarterly. The allocations remain comfortably within the permitted ranges.
- 4.23 There are several reasons for the deviations from target. These include market movements and the liquidity of specific investments as well as deliberate overweight or underweight positions.
- 4.24 The underweight positions in Non-Gilt Debt and LDI and the overweight position in Cash reflect the assessment that bond prices are vulnerable to increasing inflation expectations. With inflation significantly above target, bond yields have been rising and bond prices falling as several central banks, including the Bank of England, switch gears by raising interest rates and ending quantitative easing.
- 4.25 This "policy regime shift" presents a challenging investment backdrop with many asset valuations at the high end of historical ranges. There has been relatively little transactional activity in the Fund since the last Committee report in June, although the underweight position in LDI was reduced in July and August as yields increased. The investment team also continued to identify potential infrastructure and property

investments with the aim of moving closer to target and will deploy cash holdings in these and other assets as opportunities arise.

- 4.26 The investment team is also monitoring the evolving regulatory environment with respect to climate change reporting and transparency. There is an expectation that recent reporting requirements issued by the DWP for private sector pension funds will be mirrored in due course by regulations for the public sector LGPS funds. The Fund has continued to prepare by trialling additional data sources from external providers and requesting additional disclosure from external managers to achieve transparency in a developing field of better practice.

Stewardship Code

- 4.27 The Fund made a successful submission to become a signatory to the Financial Reporting Council's (FRC) new Stewardship Code in 2021. The submission is published on the Fund's website. To retain signatory status, the Fund must file an Annual Stewardship Report for assessment.
- 4.28 The Fund plans to produce its second annual report, which must be submitted by end October 2022. As the FRC requires that an asset owner's governing body reviews and approves the report and that it is signed by the chair, chief executive or chief investment officer, the Pensions Committee will be sent the report by email and asked to review and provide feedback (with Pension Board oversight) in October. Once reviewed, the Convenor will be asked to sign the submission on behalf of the Pension Committee. The final submission will be presented to Committee for noting at the December meeting when a paper on Stewardship is presented annually.

Local Authority Pension Fund Forum (LAPFF)

- 4.29 LAPFF promotes the long-term investment interests of the local authority pension funds and aims to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulation.
- 4.30 The Fund has been represented on the LAPFF Executive Committee since 2013. John Anzani has served since 2019, and the Pensions Committee is asked to endorse his nomination as a representative of the Fund for a further year. The Fund's representative on the LAPFF Executive is expected to report to Committee on the LAPFF's activities annually in December.
- 4.31 The Scheme Advisory Board (SAB) provide advice to the Scottish Ministers, at the Scottish Ministers' request as well as advice to the scheme managers and pension boards. It's membership comprises of seven trade union and seven employer representatives. LPF has benefitted from having a representative on the board since its formation, most recently Councillor Rose and previously Councillor Rankin.

Councillor Watt has now been appointed to the board attending the most recent meeting in September.

5. Financial impact

5.1 A summary of the projected and year-to-date financial outturn compared to the approved budget for 2022/23 is shown in the table below:

Category	2022/23					
	Approved Budget £'000	Projected Outturn £'000	Projected Variance £'000	Budget to date £'000	Actual to date £'000	Variance to date £'000
Employees	7,126	7,126	-	1,782	1,557	(225)
Transport & Premises	278	278	-	70	63	(7)
Supplies & Services	2,396	2,346	(50)	599	560	(39)
Investment Managers Fees - Invoiced	4,000	3,400	(600)	1,000	850	(150)
Investment Managers Fees - Uninvoiced	20,725	20,725	-	5,181	5,181	-
Other Third Party Payments	1,727	1,727	-	432	240	(192)
Central Support Costs	620	620	-	155	190	35
Depreciation	257	226	(31)	64	56	(8)
Gross Expenditure	37,129	36,448	(681)	9,283	8,697	(586)
Income	(2,579)	(2,637)	(58)	(645)	(844)	(199)
Total Cost to the Funds	34,550	33,811	(739)	8,638	7,853	(785)

5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of June 2022. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.

5.3 The projection shows an underspend of approximately £739k. The key variances against budget are:

- *Employees* – Cautious forecasting shows spend expected to be in line with budget for year. Various ongoing staff/recruitment projects including rechargeable staff resources to assist collaborative partner project work, this is reflected in the projected increase of income for the year of £58k. Year to date underspend due to these ongoing recruitment exercises.
- Investment Management Fees -Invoiced - £600k underspend. Current market values below figures budgeted and £50m divestment from Nordea mandate took place in July.
- Supplies & Services - £50k underspend. Underspend expected in system costs, including potential new finance ledger being significantly below budget.

- Depreciation - £31k underspend. As above setup cost of potential new finance system expected to being less than budgeted.
- 5.4 Uninvoiced expenditure (i.e. investment management costs deducted from capital) is assumed to be in-line with budget. There has been no change to the investment strategy for the period, on which the budgeted figures are based. The Fund continues its efforts to enhance the monitoring of these fees and is working with managers to improve the transparency of these charges.

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.

7. Background reading/external references

- 7.1 [LPF Strategy and Business Plan 2022/23](#)
- 7.2 [LAPFF](#)
- 7.3 [LPF Investment Strategy](#)
- 7.4 [Statement of Investment Principles](#)
- 7.5 [Stewardship Code](#)
- 7.6 [Local Government Scheme Advisory Board](#)

8. Appendices

Appendix 1 – Business Plan Performance Indicators and Forecast Cashflow

Business Plan Performance Indicators and Forecast Cashflow

Pensions Committee

28 September 2022







Appendix 1, Item 6.5

Operating Performance Metrics – Targets & Actual Performance 2022/23

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Customer Satisfaction, as measured by employers and members through survey results > 90% (12 month rolling)	95.8% (Year to date 95.8%)			90%	✓
>92% of critical pensions administration work completed within standards	98.5% (Year to date 97.2%)			92%	✓
Data Quality, as defined by the Pensions Regulator achieve “common” and “conditional” data scores in excess of 95% and 95% respectively. The data is assessed as at 31 August 2022 (members’ Annual Benefit Statements)	Reported to Committee in December			Pass	✓
The Fund operates within the approved budget	Within (Year to date Within)			Within	✓
The audit of the Annual Report is unqualified				Unqualified	✓
Rolling 10-year fund return is >+5% pa unless the benchmark is <+5%pa, in which case, the relative return is positive	Pass (Year to date Pass)			Pass	✓
Publish ENGAGE, Revised SIP and SRIP	Pass (Year to date Pass)			Pass	✓
The Employee Engagement index KPI of 70% or above	76% (Year to date 76%)			70%	✓
Less than 10% unplanned employee turnover	8.6% (Year to date 8.6%)			96%	✓

Service Performance Indicators – Targets & Actual Performance 2022/23

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Monthly Pension Payroll paid on time (Service1)	100% (Year to date 100%)			Yes	
Acknowledge the death of a member to next of kin within 5 working days. (Service2)	95.7% (Year to date 96.5%)			96%	
Percentage of employer contributions paid within 19 days of month end (Service3)	99.9% (Year to date 99.9%)			99.00%	
Estimate requested by employer of retirement benefits within 10 working days. (Service4)	100% (Year to date 100%)			91%	
Notification of dependant benefits within 5 working days of receiving all necessary paperwork. (Service5)	96.2% (Year to date 97.1%)			96%	
Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service. (Service6)	96.2% (Year to date 96.1%)			91%	
Notify members holding more than 3 months, but less than 2 year service, of their options at leaving. Target is within 10 days of the end of the one month and a day lying period or after the employer providing full leaving information if later.(Service7)	92.4% (Year to date 95.5%)			85%	
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form. (Service8)	99.2% (Year to date 99.0%)			91%	
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation. (Service9)	100% (Year to date 100%)			96%	
Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member. (Service10)	99.2% (Year to date 98.4%)			96%	
Payment of CETV within 20 working days of receiving all completed transfer out forms. (Service11)	97.9% (Year to date 98.96%)			96%	
Pension Admin Workflow - Non Key Procedures Performance. (Service12)	79.0% (Year to date 88.0%)			75%	
Proportion Of Members Receiving A Benefit Statement By 31st August (Service13)	100%			100%	

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request. (Service14)	100% (Year to date 100%)			91%	
Provide new members with scheme information within 20 working days of getting details from employer (Service15)	100% (Year to date 96.5%)			96%	
Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider. (Service16)	90% (Year to date 94.4%)			96%	
Respond In Writing Within 20 Working Days To Formal Complaints That Have Escalated From Frontline Resolution, Or Recorded Directly As An Investigation (Service17)	100% (Year to date 100%)			96%	
Level of sickness absence (Service18)	1.8% (Year to date 1.9%)			4%	
A Minimum Of Twenty hours Training For All Staff For The Year (Service19)	27% (Year to date 32%)			100%	

Membership and Cashflow Monitoring 2022/23

Lothian Pension Fund

2021/22 Actual £'000	Income	2022/23 YTD £'000	2022/23 Projected £'000
200,181	Contributions from Employers	66,424	218,000
53,054	Contributions from Employees	17,814	53,700
17,544	Transfers from Other Schemes	1,258	5,000
270,779		85,496	276,700
	Expenditure		
(195,116)	Pension Payments	(67,687)	(203,500)
(60,453)	Lump Sum Retirement Payments	(22,594)	(70,000)
(531)	Refunds to Members Leaving Service	(223)	(600)
(5,874)	Transfers to Other Schemes	(1,466)	(6,000)
(2,800)	Administrative expenses	(1,000)	(3,000)
(264,774)		(92,970)	(283,100)
6,005	Net Additions/(Deductions) From Dealings with Members	(7,474)	(6,400)

Scottish Homes Pension Fund

2021/22 Actual £'000	Income	2022/23 YTD £'000	2022/23 Projected £'000
90	Administration Charge	90	90
90		90	90
	Expenditure		
(6,360)	Pension Payments	(2,085)	(6,300)
(546)	Lump Sum Retirement Payments	(140)	(450)
-	Transfers to Other Schemes	(17)	(100)
(53)	Administrative expenses	(30)	(30)
(6,959)		(2,272)	(6,940)
(6,869)	Net Additions/(Deductions) From Dealings with Members	(2,182)	(6,850)