



## **Pensions Committee**

2.00pm, Wednesday, 7 December 2022

### **Business Plan Half Year Review 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 functional plans, as well as;
  - performance indicators and projects;
  - membership and cashflow monitoring; and
  - Investment strategy update.

#### **David Vallery**

Chief Executive Officer, Lothian Pension Fund

Contact: John Burns, Chief Finance Officer, Lothian Pension Fund

Jason Koumides, Financial Controller, Lothian Pension Fund

E-mail: [lpfgovernancecomms@lpf.org.uk](mailto:lpfgovernancecomms@lpf.org.uk) | Tel: 0333 996 1900

# Business Plan Half Year Review 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.

- 3.3 Updates specific to Project Forth have not been included and are covered in a separate paper.

## 4. Main Report

---

- 4.1 The progress that the Fund has made against the 2022-2023 Business Plan so far this financial year is summarised below -

### Performance Indicators

- 4.2 Overall, the Fund has either achieved or on target to achieve its Operating and Service performance targets for the year. Appendix 1 provides a full list of these key indicators and their quarterly and year to date performance. The only indicator currently rated as Amber is in relation to staff training hours which the Fund does expect to reach by the end of the financial year.

## Functional Plan Updates

High level updates on the progress that each team has made against their Functional Plan can be found below. Status reports on projects highlighted in the Business Plan can also be found in Appendix 1.

### Pension Administration & Member Services

- 4.3 The highlights of the progress made by the Pension Administration and Member Service team for the year so far are -
- Meeting the Pension Regulator's statutory requirement of issuing 100% of annual benefit statements by the end of August
  - Achieved above the target data quality score of 95% for "common" and "conditional" data (as defined by the Pensions Regulator), attaining 98.6% and 99.4% respectively
  - Retained Customer Service Excellence Standard with 4 compliance pluses. A Compliance Plus is issued in areas that demonstrate innovation in customer support/services that go above and beyond the practice of similar providers. Work has also commenced on the retention of the Fund's PASA award
  - As part of its digital transformation projected rolled online processes for members so they complete retirement, refund and transfer out paperwork digitally
  - Work has commenced in implementing new software and preparing employers for McCloud requirements
  - Continued involvement in the consultation process for the Pensions Dashboard Regulations and Standards
- 4.4 In October, Karlynn Sokoluk was appointed as Chief Operating Officer overseeing Pension Administration, Member Services and IT & Change Services.
- 4.5 Pensions Administration and Member Services have recently conducted a review of service provisions and is in the process of considering organisational design to build on current good performance.

### Investments

- 4.6 Progress towards investment objectives include:
- Prudent implementation of investment strategy: asset allocation (notably global diversification, underweight in debt assets, overweight in cash and lower volatility positioning in equities) has protected the fund at a time of declining bond and equity prices

- Monitoring of and preparation for regulatory change relating to climate-related disclosures, including gap analysis by Responsible Investment Group
- Following achievement of signatory status, second Stewardship Report submitted to FRC in late October and SRIP updated in November
- Review of strategic and policy group benchmark with advisers to assess suitability
- Strong progress on portfolio alignment activity with partner funds (increased assets under management), including improved reporting to LPFI Board and partner funds to satisfy FCA requirements
- Recruitment of two experienced portfolio managers to enhance resilience and continue development of a new internal equity portfolio
- Recruitment of investment operations manager to improve efficiency and resilience across the investment management team and in its interactions with other functions, such as Finance and Risk and Compliance.

#### IT & Change

#### 4.7 Achievements in the IT and Change group include -

- Cyber Essentials accreditation gained in June and Cyber Essential Plus accreditation targeted to be achieved by end of 2022
- Supported the successful implementation of the Fund's new website in March
- Created and introduced a standard project management methodology that is now being used for all significant projects
- Information Technology Oversight and Change Group continues to manage/monitor projects and third party assurance, ensuring a suite of IT, data security and management policies embedded into processes.

#### Governance, Legal, Risk & Compliance

#### 4.8 Key progress in Governance, Legal, Risk and Compliance include -

- Updated Third Party Supplier Framework policy published in June which is currently being embedding into supporting processes and controls
- FCA granted a Variation of Permission to LPFI in September lifting its previous £1.25b assets under management cap allowing further engagement with Fife and Falkirk in respect executing their chosen strategies.
- Risk & Compliance and Finance team have been working together to transition from the ICAAP to ICARA regulatory capital regime. LPFI has successfully submitted its ICARA data to the FCA for 30 September 2022

- Recommendations by CEC's Information Governance Unit (IGU) have been implemented into the Information Governance framework.
- Broader reaching Compliance Monitoring Program procedures introduced providing more substantive oversight and assurance in respect of non-FCA regulatory requirements, such as the Pensions Regulator
- Enhancements to risk management have been made to the recording and reporting of issues and incidents, allowing themes and trends to be timeously identified and acted upon before risks crystalise into an event requiring remediation

#### Finance

4.9 Progress the Finance team has made towards its functional plan includes –

- Clean audits of LPF Group and LPFE/I accounts
- Procurement exercise completed for a new finance system, with hopes for implementation process commencing in Q1 2023
- Review of budget/budget monitoring process underway in preparation for new finance system and 2023/24 budget
- Provision of enhanced monthly reporting to senior leadership team on Fund operational performance

#### People & Communications

4.10 Highlights of the work streams in the People & Communications team are -

- Your Voice (all colleague engagement survey) was carried out in October 2022 and had a 86% participation rate. The engagement factor was 79% which was +3% from our April 2022 pulse engagement survey. Our engagement percentage has increased year on year and is +10% from 2019 results.
- HR system procurement process was completed in September 2022 after extensive research 4 systems were compared. SLT approved procuring new system - PeopleHR in September and 3 year contract was signed in October 2022. The new HR system will integrate with our current learning management system and provide a platform for HR data, engagement surveys, recruitment, training and payslips. The new system will go live for colleagues in January 2023.
- Our new website was launched on 31st March. In May 2022, we had an external review of our accessibility policy and they also carried out an accessibility audit. In July, we had accessibility training for our colleagues who create content for the website to understand the WCAG 2.1 guidelines. We

are currently reviewing our website content to refresh some areas and adding a visitor feedback section.

- Work has commenced on identifying a new larger office space in Edinburgh, with a shortlist of potential premises created. Current hybrid working arrangements continue however Atria office space has a limited capacity making it difficult for larger teams to be in the office together.

### **Membership and Cashflow monitoring**

- 4.11 Tables detailing the cashflows as at the end of September 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).
- 4.12 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.
- 4.13 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.
- 4.14 In the last quarter one of the Fund's former employers entered into administration. Through its Funding Agreement with the exited employer, the Fund had attained suitable security on the employer's assets, including property, and full recovery of outstanding debt is therefore anticipated, with no adverse impact is expected on cash flows.

### **Investment Strategy Update**

- 4.15 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 October 2022.



Main Strategy		Percentages		
Policy Group	Range	Target	Actual	Deviation
Equities	50 - 70	60	59.2	-0.8
Real Assets	10 - 30	20	20.0	0.0
Non-Gilt Debt	0 - 20	10	6.5	-3.5
LDI (Gilts)	0 - 20	10	8.8	-1.2
Cash	0 - 15	0	5.5	5.5
<b>Total</b>		<b>100</b>	<b>100</b>	

- 4.16 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.
- 4.17 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.
- 4.18 The underweight positions in Non-Gilt Debt and LDI and the overweight position in Cash are long-standing positions that have reflected the assessment that bond prices are vulnerable to increasing inflation expectations. Events during September and October exposed that vulnerability and created opportunities to reduce the underweight position in LDI, which are simply UK gilts. They are not leveraged positions as they are for some pension funds. The fund reduced, but did not eliminate the underweight position in LDI, with the expectations that inflation volatility will remain high for the foreseeable future.
- 4.19 There is no change to the view that the current tighter monetary policy and geopolitical uncertainties present the fund with a challenging investment backdrop. Asset valuations have compressed somewhat, but many remain at the high end of historical ranges. Other than the purchase of index-linked gilts mentioned above, there has been little transactional activity in the Fund since the last Committee report 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	-	3,563	2,781	(782)
Transport & Premises	278	278	-	139	131	(8)
Supplies & Services	2,396	2,146	(250)	1,198	997	(201)
Investment Managers Fees - Invoiced	4,000	3,400	(600)	2,000	1,598	(402)
Investment Managers Fees - Uninvoiced	20,725	20,725	-	10,363	10,363	-
Other Third Party Payments	1,727	1,680	(47)	864	595	(269)
Central Support Costs	620	620	-	310	326	16
Depreciation	257	226	(31)	129	101	(28)
<b>Gross Expenditure</b>	<b>37,129</b>	<b>36,201</b>	<b>(928)</b>	<b>18,566</b>	<b>16,892</b>	<b>(1,674)</b>
Income	(2,579)	(2,387)	192	(1,290)	(1,022)	(268)
<b>Total Cost to the Funds</b>	<b>34,550</b>	<b>33,814</b>	<b>(736)</b>	<b>17,276</b>	<b>15,870</b>	<b>(1,406)</b>

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

5.3 The outturn projection shows an underspend of £736k. The key variances against budget are:

- *Employees* – Cautious forecasting shows spend expected to be in line with budget for year. Year to date underspend arises from variable pay arrangements, payable in January.
- Investment Management Fees -Invoiced - £600k underspend. Current market values are below budget assumptions and £50m divestment from Nordea mandate took place in July.
- Supplies & Services - £250k underspend. System costs, including potential new finance ledger, are expected to be significantly below budget.
- Other Third Party Payments - £47k underspend. Represents independent investment advisor costs lower than originally budgeted.
- Depreciation - £31k underspend. As above, set up cost of new finance system is expected to be lower than budgeted.

5.4 Un-invoiced 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](#)

## **8. Appendices**

---

Appendix 1 – Business Plan Performance Indicators and Forecast Cashflow



# **Business Plan Performance Indicators and Forecast Cashflow**

**Pensions Committee**

**7 December 2022**

## 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%	93.9% (Year to date 93.9%)		90%	✓
>92% of critical pensions administration work completed within standards	98.5%	95.9% (Year to date 97.3%)		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)	Pass			Pass	✓
The Fund operates within the approved budget	Within	Within (Year to date Within)		Within	✓
The audit of the Annual Report is unqualified	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	Pass (Year to date Pass)		Pass	✓
Publish ENGAGE, Revised SIP and SRIP	Pass	Pass (Year to date Pass)		Pass	✓
The Employee Engagement index KPI of 70% or above	76%	79% (Year to date 79%)		70%	✓
Less than 10% unplanned employee turnover	8.6%	5.8% (Year to date 6.8%)		10%	✓







## 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%	100% (Year to date 100%)		Yes	✓
Acknowledge the death of a member to next of kin within 5 working days. (Service2)	95.7%	97.5% (Year to date 96.3%)		96%	✓
Percentage of employer contributions paid within 19 days of month end (Service3)	99.9%	99.9% (Year to date 99.9%)		99.00%	✓
Estimate requested by employer of retirement benefits within 10 working days. (Service4)	100%	100% (Year to date 100%)		91%	✓
Notification of dependant benefits within 5 working days of receiving all necessary paperwork. (Service5)	96.2%	98.3% (Year to date 96.3%)		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%	97.1% (Year to date 96.8%)		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%	94.2% (Year to date 95.2%)		85%	✓
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form. (Service8)	99.2%	98.8% (Year to date 99.1%)		91%	✓
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation. (Service9)	100%	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%	97.8% (Year to date 98.2%)		96%	✓
Payment of CETV within 20 working days of receiving all completed transfer out forms. (Service11)	97.9%	100% (Year to date 97.6%)		96%	✓
Pension Admin Workflow - Non Key Procedures Performance. (Service12)	79.0%	76.9% (Year to date 77.4%)		75%	✓
Proportion Of Members Receiving A Benefit Statement By 31st August (Service13)	100%			100%	✓




	<b>Q1</b> <b>April to</b> <b>June</b>	<b>Q2</b> <b>July to Sept</b>	<b>Q3</b> <b>Oct to</b> <b>Dec</b>	<b>Target</b>	<b>Status</b>
<b>Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request. (Service14)</b>	100%	100% (Year to date 100%)		91%	✅
<b>Provide new members with scheme information within 20 working days of getting details from employer (Service15)</b>	100%	92.8% (Year to date 96.9%)		96%	✅
<b>Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider. (Service16)</b>	90% (Year to date 94.4%)	100% (Year to date 96.6%)		96%	✅
<b>Respond In Writing Within 20 Working Days To Formal Complaints That Have Escalated From Frontline Resolution, Or Recorded Directly As An Investigation (Service17)</b>	100%	100% (Year to date 100%)		100%	✅
<b>Level of sickness absence (Service18)</b>	1.8%	2.0% (Year to date 2.0%)		4%	✅
<b>A minimum of twenty hours training for all staff for the year (Service19)</b>	27%	47% (Year to date 49%)		100%	⚠️

## Projects & Change – Status Update 2022/23

The table below provides an update on progress made against the formal projects laid out in the 2022-23 Strategy and Business Plan -

Project Name	Objective	Update	Status
<b>Project Forth</b>	The proposed merger of Lothian Pension Fund with Falkirk Council Pension Fund and the transition to a new legal form and governance structure for the combined fund. <b>Project Lead - CEO (David Vallery)</b> <b>Timescale – 2022/23</b>	On track noting agreed change in completion date. Detailed updated provided in additional report.	
<b>Finance Systems</b>	Having reviewed the current finance system and documented procedures, procure a fit for purpose, tailored and flexible solution to best meet pension funds' needs, with revised procedures as required. <b>Project Lead - CFO (John Burns)</b> <b>Timescale – Q1 2023</b>	Procurement process complete, currently preferred system is undergoing assurance testing. Implementation expected to start in Q1 2023.	
<b>Digital Transformation</b>	To ensure the digital service offering for both members and employers is class leading for the pensions industry <b>Project Lead - COO (Karlynn Sokoluk)</b> <b>Timescale – 2022/23</b>	Progress made in developing member self-service processing, significantly reducing the time to conclude these including retirement through to payment. Facial recognition introduced for overseas pensioners annual checks as part of our governance requirements.	
<b>McCloud</b>	Ensure rectification of historic LGPS age discrimination in accordance with (future) regulations and timetable, together with requisite member communications. <b>Project Lead - COO (Karlynn Sokoluk)</b> <b>Timescale – 2023/24</b>	Data requests issued to smaller employers to establish issues with data criteria required for validation prior to rectification work in the future. Engaging with employers to provide them with guidance in undertaking this work.	
<b>Climate Disclosure and Strategy Project</b>	The objective of the project is to review and agree the SRIP, which involves reviewing existing and prospective regulations, data requirements, data suppliers, implication on budget, including time resource, and deciding on what commitments can and should be made. <b>Project Lead - CIO (Bruce Miller)</b> <b>Timescale – 2022</b>	Gap analysis undertaken looking at differences between current policies and expected climate disclosure requirements. Given the pace of regulatory change, project will extend into 2023 and beyond. SRIP amended for review by Committee in December 2022.	
<b>Pensions Dashboard</b>	Support the introduction of the UK Government's Pension Dashboard, working with our pensions administration software supplier to facilitate data submission and address member servicing requirements. <b>Project Lead - COO (Karlynn Sokoluk)</b> <b>Timescale – 2023/24</b>	Liaising with Heywood to potentially participate in beta testing once relevant specification details are approved. Progressing options of our ISP provider to connect to the ecosystem with security of our member data a key requirement.	



Project Name	Objective	Update	Status
<b>LPF Website</b>	Introduce a single website, consolidating and extending functionality from the three existing websites. <b>Project Lead - CPO (Helen Honeyman)</b> <b>Timescale – 2022</b>	Complete	
<b>Information Governance Improvement Plan</b>	Review and revise the LPF information governance framework, policies and procedures including response to the CEC/IGU recommendations relating to the IT Migration project in 2021. <b>Project Lead - CRO (Kerry Thirkell)</b> <b>Timescale – 2022</b>	Enhanced data protection policies and related procedures have been implemented, and LPF-wide data protection training was carried out. Further training and establishing regular monitoring is expected to be carried out in Q4 2022.	
<b>IT Security Improvement Plan</b>	Implement the recommendations of the 2021 Bridwell Security review. <b>Project Lead - Head of IT (Anne Mitchell)</b> <b>Timescale – 2022</b>	Good progress being made and on track to be complete by end of the year.	

## Membership and Cashflow Monitoring as at 30 September 2022

### Lothian Pension Fund

2021/22 Actual £'000	Income	2022/23 YTD £'000	2022/23 Projected £'000
200,181	Contributions from Employers	96,097	215,000
53,054	Contributions from Employees	26,835	53,700
17,544	Transfers from Other Schemes	2,321	5,000
<b>270,779</b>		<b>125,253</b>	<b>273,700</b>
	<b>Expenditure</b>		
(195,116)	Pension Payments	(102,098)	(205,000)
(60,453)	Lump Sum Retirement Payments	(31,804)	(69,000)
(531)	Refunds to Members Leaving Service	(381)	(762)
(5,874)	Transfers to Other Schemes	(5,715)	(8,000)
(2,800)	Administrative expenses	(1,500)	(3,000)
<b>(264,774)</b>		<b>(141,498)</b>	<b>(285,762)</b>
<b>6,005</b>	<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(16,245)</b>	<b>(12,062)</b>

## 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	(3,127)	(6,300)
(546)	Lump Sum Retirement Payments	(316)	(600)
-	Transfers to Other Schemes	(17)	(100)
(53)	Administrative expenses	(45)	(90)
(6,959)		(3,505)	(7,090)
(6,869)	Net Additions/(Deductions) From Dealings with Members	(3,415)	(7,000)