

## **Pensions Committee**

2.00pm, Thursday, 23 March 2023

### **2023-24 Strategy & Business Plan Inc. Functional Plan and Budget**

#### **Item number 6.7**

#### **1. Recommendations**

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The Pensions Committee (Committee) is requested to:

- 1.1 approve the Strategy and Business Plan for 2023-24;
- 1.2 approve the respective budgets, as detailed in the Financial Projections section of appendix 1, for:
  - 1.2.1 LPF Group business as usual 2023-24; net expenditure of £16,460k;
  - 1.2.2 Project Forth; net expenditure of £866k; and
  - 1.2.3 Office relocation; capital outlay of £900K, revenue expenditure in 2023/24 of £327k, with full year total future revenue expenditure of £675k, as referenced in 5.3.7.
- 1.3 note the indicative budget for 2024-25; net expenditure of £16,093k.

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# Strategy and Business Plan for 2023 – 24

## 2. Executive Summary

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- 2.1 The Strategy and Business Plan sets out the proposed medium-term strategy for LPF and the business priorities for calendar years 2023-24. It also sets the budget and performance targets for the financial year 2023-24.
- 2.2 The overall strategy remains the same and articulated in four strategic goals:
  - 2.2.1 Develop and deliver a member and employer proposition for service excellence
  - 2.2.2 Earn an appropriate risk adjusted investment return as responsible investors
  - 2.2.3 Extend collaboration and services to existing partners and deepen where possible
  - 2.2.4 Achieve greatness in our people, teams and culture
- 2.3 The plan describes Project Forth as the key strategic priority. Project Forth the proposed merger with Falkirk Council Pension Fund and related structural and governance change was approved by the respective Pension Committees in December 2021 and whilst it remains conditional on approval by both of the respective Councils, as well as legislative change and regulatory clearances, it will be a key focus of effort during 2023 and in to 2024.
- 2.4 It is anticipated that this can be delivered alongside a significant suite of regulatory and functional projects and change, whilst continuing to deliver the core service to members and employers and meet all governance and regulatory requirements.
- 2.5 The other significant strategic project is in relation to a potential office move. The current office in Atria One lease was signed on 18 November 2013 with occupation taken in the spring of 2014. The office was chosen at the time based on a headcount of 50 employees and with our current headcount of 99 employees, excluding any changes that might happen due to Forth, is no longer meeting our requirements.
- 2.6 Hybrid working is now well established and, in general, working well with colleagues appreciating the greater flexibility as well as saving in time and cost. Nevertheless with the increased headcount we have less than 42% desk availability on a daily basis and whilst touch down space increases capacity it doesn't support all day working nor dual screen or call handling work. The inability to get full teams in together, the lack of meeting rooms, inability to separate quiet areas from call handlers, limited kitchen / colleague breakout area and so are increasingly compromising the working environment and practices and this was reflected in the YourVoice engagement survey.

- 2.7 The Key Performance metrics in appendix 1 and the Service Performance Indicators set out in appendix 2 of the 2023 – 2024 Strategy and Business plan (pages 29 and 30) are consistent with the 2021-23 plan. Some of these targets are being reviewed and although no major changes are expected any revisions will be tabled at the Pension Committee in June for approval.

### **3. Background**

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- 3.1 In March 2021 the Committee agreed to move to a triennial review of the generic functional plan. LPF had previously followed a 2 year planning cycle.
- 3.2 In light of the significance of Project Forth and the proposal for a new corporate entity and unitary Board replacing the Pension Committee, the previous two year planning horizon was retained in 2022/23 with the expectation that the new Board will look to consider a fresh plan for the new entity in 2024.
- 3.3 Due to additional discovery workstreams for Project Forth, the new entity is not expected to be active until the end of the 2023/24 financial year meaning the 2 year planning cycle has been retained.
- 3.4 The Boards of LPFE and LPFI have been consulted during the development of this plan and are supportive of it. If the Strategy and Business Plan are approved by the Committee, then the relevant aspects will be considered formally by the Boards of LPFE and LPFI with the expectation that they would be approved. This includes the regulatory business plan of LPFI.

### **4. Main Report**

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#### **Strategy**

- 4.1 The Strategy and Business Plan for 2023-24 is provided as Appendix 1.
- 4.2 The Plan opens with an articulation of the Purpose, Vision and Values (“PVV”) of LPF. We regard these as being enduring and the aim is that all colleagues can articulate the PVV and understand the role they play in delivering them for the benefit of our members and employers. We recognise further work is required to achieve this.
- 4.3 The Strategic section articulates the strategic goals, and within these strategic priorities for LPF. Again, these remain the same:
- 4.3.1 Develop and deliver a member and employer proposition for service excellence
  - 4.3.2 Earn an appropriate risk adjusted investment return as responsible investors

- 4.3.3 Extend collaboration and services to existing partners and deepen where possible
- 4.3.4 Achieve greatness in our people, teams and culture.
- 4.4 Evidently, delivery of Project Forth will be a fundamental step in the evolution of LPF but is clearly an extension of the existing strategy of influencing the LGPS of the future. From a member, employer, and colleague perspective there is no change in strategy.
- 4.5 The Business Plan document provides an overview of the planning process followed and includes a recap of 2023 to provide context.

#### **Business Plan**

- 4.6 Whereas the strategy, purpose, vision and values are expected to remain constant, the Business Plan is intended to capture specific projects and initiatives designed to deliver the strategy and set out the operating parameters.
- 4.7 The business plan document sets out what are described as functional plans. These describe the key priorities and initiatives of each function and department and summarise more comprehensive functional plans that have been created for use within the teams. Collectively these ensure there is clarity of the priorities of each team and alignment both up and down and across the business.
- 4.8 Key initiatives include:
  - 4.8.1 The enhancement of existing risk management arrangements with a fully integrated framework based on
    - 4.8.1.1 Focusing on managing risk across the business in a proportionate and pragmatic way
    - 4.8.1.2 Ensuring arrangements are scalable with an emphasis on investing for the future and building resiliency
    - 4.8.1.3 Reducing complexity by standardising processes wherever possible and appropriate
  - 4.8.2 Relocating our office to accommodate our growing workforce and facilitating more face to face colleague collaborations.
  - 4.8.3 Integration of new finance system and exploration of potential efficiencies that it could bring as well as the additional oversight and resilience it will offer in relation to budget monitoring and supplier management.
  - 4.8.4 Integration of new finance system and exploration of potential efficiencies that it could bring as well as the additional oversight and resilience it will



offer in relation to budget monitoring and supplier management.

4.8.5 Like all good business plans, it includes a section on risks. This highlights the key risk to delivery is management and resource stretch and outlines how this is being mitigated. It highlights the risk on Forth, both in getting the appropriate final approvals, delivering the project and potential challenges in aligning and integrating FCPF colleagues and members without disrupting the core LPF service. LPF are also acknowledging the risk of change fatigue given the significant changes over recent years and set out in this plan. The plan document doesn't list the full set of business risks. These risks both inherent and temporal are set out in the risk registers that are reported to the Pensions Committee, Audit Sub Committee and each of the LPFI and LPFE Boards.

4.9 The Plan sets out financial forecasts and the assumptions on which these are based. This is described in the following section.

#### **Functional Plan and Service Metrics**

4.10 The Plan includes as appendix 1 the 'Corporate Performance Measures'. These were previously labelled the operational goals and measures. These are effectively focused 'balanced scorecard' covering all aspects of LPFs performance. They also form the basis for the variable pay component for colleagues.

4.11 Appendix 2 lists the 'Service Performance Indicators'. These remain unchanged from 2022/23. It is recognised that delivery against these can be impacted by the performance of employers, for example late delivery of notification of leavers and joiners, as well as by our performance. The Project Forth papers also note the potential for some degree of temporary service impact as the project commences and before integration is complete.

#### **Project Forth**

4.12 It should be recognised that if Project Forth proceeds as expected, then LPF will cease to exist as will the Pensions Committee. A new entity ("NewCo") will be in place and act as scheme manager and administering authority of the merged successor fund ("NewFund") and with a new Board. It is anticipated that this new Board will consider the initial business plan and budget of that entity.

4.13 The illustrative budget for 2024/25 should be considered in this regard. The intention is to prepare a pro-forma NewCo budget later in 2023 that will take both LPF and FCPF indicative budgets for 2024/25 and adjust these for the expected merger synergies and any additional NewCo operating costs.

- 4.14 NewCo will be staffed by LPF's current staffing compliment plus an additional c20 staff from FCPF, a majority of which in relation to pensions administration. Likewise, NewFund will be made of LPF's current standing plus an approximate £3.2b in assets and additional 36,000 members.
- 4.15 Should Project Forth proceed then CEC will cease to provide services to NewCo with these services, including Internal Audit and Committee Services being performed either 'in-house' by LPFE on behalf of NewCo or via new external suppliers. The plan sets out the expectation of these changes being independent of Project Forth and consistent with the existing strategy to source directly in the interests of good governance, tailored capabilities and agility.

#### **Office Move**

- 4.16 LPF have been based in Atria One since early 2014. Originally designed for 50 colleagues it now has capacity for 42 the difference being the result of increased distancing in a covid world. With a current headcount of 99 expecting to increase to 103 during 2023 it is no longer meeting our requirements.
- 4.17 Even with hybrid working proving effective and popular, we have less than 42% desk availability on a daily basis. Touch down space increases capacity it doesn't support all day working nor dual screen or call handling work. More broadly, the inability to get full teams in together, the lack of meeting rooms, inability to separate quiet areas from call handlers, limited kitchen / colleague breakout area and so are increasingly compromising the working environment and practices and this was reflected in the YourVoice engagement survey.
- 4.18 The proposal is to find new accommodation of approximately double the size, of similar standard and in a similar location. The aim will be to have desks for 65-80% of headcount with the additional space creating meeting, training and break out spaces. Consistent with our ESG and responsible investing principles a high sustainability score is being sought which also translates in lower ongoing service costs whilst public transport connections will keep the carbon footprint down.

## **5. Financial impact**

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- 5.1 The respective budgets for LPF Group "business as usual" activity, together with strategic projects of Project Forth and Office relocation are detailed in the Financial Projections section of appendix 1, for:
- 5.2 The proposed total budget represents a £2,235k increase to the comparable 2022/23 budget, of which £738k relates to strategic project costs.

### 5.3 Key changes from current year comprise the following:

#### **Employees**

5.3.1 £1,333k increase on last year's budget. Changes of note being –

5.3.1.1 Inclusion of 5 vacancies including a Senior Risk Officer and additional Portfolio Managers. These roles are both a response to the increasing requirements within the business.

5.3.1.2 Full year provision for roles recruited in 2022/23 to improve the resilience of the fund, pay reviews as a result of the cost of living crisis and SLT benchmarking exercise. These are in line with the recommendations and approvals made by the LPFE Board.

5.3.1.3 The indicative budget for 2024/25 shows an increase of £596k. This assumes the removal of Forth specific roles and a full year of salary uplifts assumed to be around 6%.

#### **Supplies and Services**

5.3.2 £346k increase on last year's budget. Increase the result of a number of factors including increased head count (additional training, system licences, etc), system/consultancy related costs McCloud, Pensions Dashboard, Risk and Compliance upscaling and supplier management, as well as higher professional indemnity insurance premiums due to great assets under management

#### **Investment Management**

5.3.3 £150k decrease in relation to invoiced fees. Externally managed mandate fees are based on market value. Fund reduced holdings in one of externally managed mandates during 2022/23.

#### **Plant and Transport**

5.3.4 Slight increase of budget by £28k including rise in costs for office management and an increase in the travel budget for internal investment property team as lockdown restrictions ease.

5.3.5 Indicative 2024/25 figures show a £418k increase a majority in relation to premises costs. Using current assumptions for the preferred premises, the annual cost of the new premises is expected to be £675k.

#### **Support Costs**

5.3.6 £112k increase in budget. This reflects higher ICT costs due to head count and additional internal audit function for LPFE and LPFI.

### **Third Party Payments**

5.3.7 £105k increase in overall budget. Additional budget included for investment performance monitoring due to withdrawal of current provider and triennial actuarial valuation.

### **Strategic Project Costs**

5.3.8 £738k increase in overall budget. 2 strategic projects identified –

5.3.8.1 Project Forth – reflects additional £411k increase due to change on previous methodology in project cost sharing and additional workstreams identified in discovery. A budgeted of £1,425k remains for Uninvoiced investment management fees for potential tax charges in transferring investment assets to the new entity.

5.3.8.2 Office relocation – net £327k (for 2023/24) additional costs associated with a potential premises move. Full year revenue expenditure would amount to £675K. Budget assumptions used reflect the current available information for the preferred premises. Dilapidations on our current office are estimated at £250k. Any lease assignee will expect to have the dilapidations liability covered and any sub-tenant will want a schedule of condition to limit reinstatement to the condition it is on entry. Cost implications in relation to lease handover are assumed to be broadly neutral, with rent free period on the new office, together with potential income from income of sub-lease of Atria anticipated should a straightforward lease handover not prove possible. Such financial uncertainties, however, are acknowledged. A £900k capital budget is also proposed for the refit of the new office which would be depreciated over the 10 year lease period.

5.4 The 2022/23 budget has been adjusted in relation to uncontrollable investment income and expenditure. Securities lending has been removed due to the inconsistency of its treatment with other investment income and Uninvoiced Investment Management fees are disclosed separately in the budget analysis.

5.5 Uninvoiced Investment Management fees section of the budget now also includes an estimate of the potential performance related element due on its unlisted asset mandates.

5.6 An indicative 2024/25 budget for LPF on a 'business as usual' basis, excluding Project Forth which has been prepared.

- 5.7 A pro-forma NewCo budget incorporating the transferring costs and synergies expected on completion of Project Forth will be prepared and presented to committee in due course.
- 5.8 Committee is reminded, in general terms, of its obligation to secure and demonstrate value for money and that performance against such is reviewed and a judgement made thereon by the external auditor, as detailed within the Annual Audit Report to Members of the Pensions Committee and the Controller of Audit.

## **6. Stakeholder/Regulatory Impact**

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- 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**

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- 7.1 None.

## **8. Appendices**

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Appendix 1 – Draft Lothian Pension Fund Strategy and Business Plan 2023-2024





# STRATEGY AND BUSINESS PLAN

2023 - 2024



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## FOREWORD

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### 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.

Through our service and employment company LFFE, we administer the LGPS in Edinburgh and the Lothians and are one of approximately a hundred local government pension scheme (LGPS) funds in the UK, and the second largest LGPS fund in Scotland. We're an asset-backed and multi-employer scheme with around £9 billion of assets and we were 106% funded at our last valuation in 2020. We're proud to serve over 80,000 members and 67 contributing employers.

LPFI, our regulated asset management company, provides investment advice and management to partner LGPS funds sharing costs and expertise to the benefit of LPF and these partners.

### 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 are increasingly attainable as a result of technology advances. Our members have high expectations of all organisations they interact with when it comes to being straightforward to deal with, courteous, professional, 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 considerable 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 low interest rates, climate risk assessment, 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 with due awareness of the complex dynamics of investing in a changing world to be able to provide benefits for members and their sponsoring employers.

We remain aware of the potential for structural review of the LGPS in Scotland and that consideration of a National Care Service might have implications on pension provision. We shall respond positively to any developments in these, whilst also noting the potential consolidation of multi-fund LGPS employers where there is a case for rationalisation. Conversely, we'll consider the risks of employers and members through such exercises and understanding the potential impact on LPF and possible risk mitigants and defensive strategies.

### **Our Strategy and Business Plan**

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

## INTRODUCTION

We have a clear purpose, vision, and values.

### Our purpose

To administer the LGPS in Edinburgh and the Lothians. By paying pensions and benefits to members, we help with the financial well-being of members and their families in retirement.

We invest the scheme's assets, seeking to earn an appropriate return that will reduce the cost of the scheme to employers and improve the sustainability of the LGPS. By investing responsibly, we seek to ensure that companies meet and manage environmental, social and governance standards, including those relating to the climate change threat and the need to transition to a net zero world.

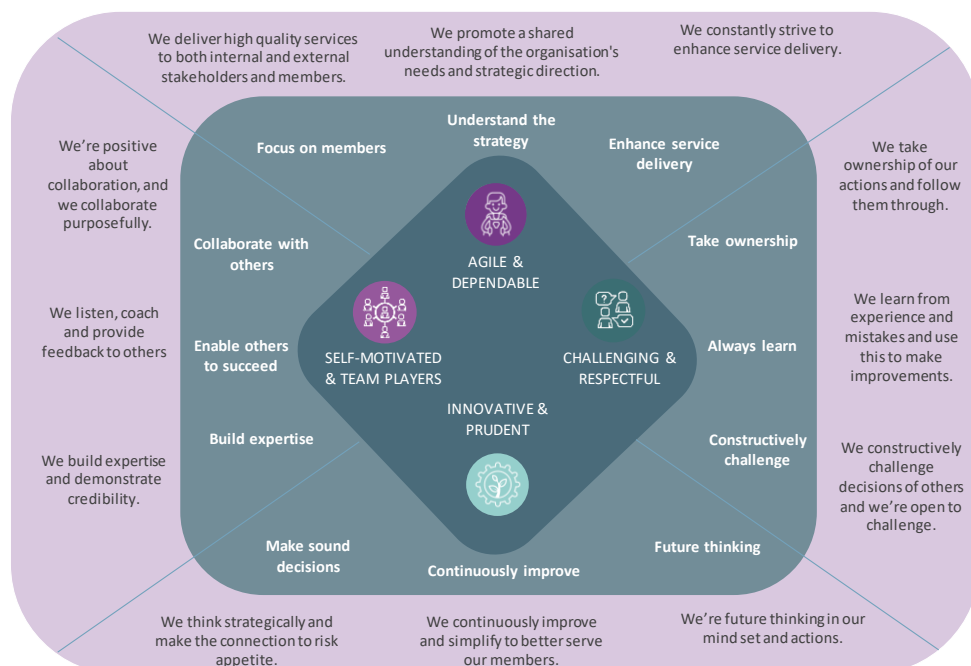
### Our vision

To deliver outstanding pension and investment services for the benefit of members and employers.

Beyond this we aspire to be the best LGPS in Scotland, if not the UK, in terms of meeting the needs of members and employers, in using our influence as a leading responsible investor, and offering a superior employment proposition to our colleagues.

### Our core values

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





## A REVIEW OF 2022

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

2022 was another year of success and progress for LPF. We continued to deliver for our members, paying out £187,667,492 to 34,774 members and welcoming 6,196 new members.

Providing excellent customer service to our members and employers is at the heart of what we do, so we were delighted to achieve Pensions Administration Standards Association (PASA) reaccreditation along with the Customer Service Excellence Award. We also scored 94.7% overall customer satisfaction in our annual surveys.

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

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

An overall investment return of -1.3% was earned over the year, giving a three year and five-year annualised return of 4.4% and 5.3%. In the context of significantly negative returns for market indices for gilts (double-digit decline) and global equities (high single digit decline) over the year, this was a creditable, if disappointing, level of return.

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

Our focus and commitment to being a responsible investor continued. In March, we were proud to be listed as a signatory to the UK Stewardship Code, following the publication of our Stewardship Report. This report sets out how we're delivering against the 12 principles set out by the Financial Reporting Council and includes case studies of our activities. We published Issue 5 of our ESG ezine,

*ENGAGE* which gives detailed information on LPF's approach to ESG and our responsible investment activities.

During the year we recruited 26 new colleagues across a variety of roles. These hires will not only ensure that we remain adequately resourced to deliver what we need today but will enable us to continue to improve our capabilities and the services we deliver to our members and employers.

Lastly, and by no means least, we continued to explore a merger with the Falkirk Council Pension Fund. Work to take this proposal forward will continue this year, subject to approval by both the City of Edinburgh and Falkirk Councils, and regulatory approval in both Scotland and the UK. If it's approved, the merger is expected to take place in 2024. The merger is discussed in more detail later in this document.

## Our planning process

After joining in mid-2021, our CEO initiated a structured review of the purpose of the fund, its strategy, and goals. This exercise considered external factors, engaged with colleagues, the Senior Leadership Team (SLT) of the Fund, the Directors of the subsidiary companies LPFI and LPFE, and key suppliers, as well as reviewing feedback from members and employers. This process led to a clear and comprehensive statement of strategy which was subsequently considered and approved by the Pensions Committee on behalf of our members and employers.

In light of the potential transformational merger with Falkirk Council Pension Fund which is subject to approval by both Falkirk and City of Edinburgh Councils, a full review of the strategy hasn't taken place this year. The expectation is that any merged fund will continue to pursue a broadly similar strategy and focus, but this will be retested with members, employers, and other key stakeholders as part of the inaugural business plan of the merged fund. Until then the existing strategy is being maintained, subject to ratification by the Pensions Committee on 23 March 2023.

The planning process takes the four broadly defined strategic goals and sets more detailed objectives and accompanying targets for each. These targets and measures allow us to monitor progress and identify where interventions may be required.



The strategic goals and more detailed objectives are set out in the following pages, along with individual functional plans, which detail how each function contributes to the overall strategy and goals of LPF. These are accompanied by financial metrics, headcount, and the other essential components of a comprehensive business plan.

## STRATEGIC GOALS

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Our four strategic goals are set by our Vision *“to deliver outstanding pension and investment services for the benefit of members and employers.”* At LPF, we take pride in everything we do for our members, employers and stakeholders and strive for excellence. Our goals are as follows:

### **Develop and deliver a member and employer proposition for service excellence**

We aspire to deliver service excellence to our members and employers. To achieve service excellence, we’ve benchmarked where we are, and agreed measures to achieve our goal.



We’ll continue to target external validation including the Pensions Administration Standards Association (PASA) accreditation and the Customer Service Excellence (CSE) award. In addition, we’ll use CEM Benchmarking to validate our goal of high quality / value for money positioning of participating UK pension funds.

We’ll keep things simple by eliminating complexity and unnecessary friction in internal processes across the Fund and operating with clear information accessible across multiple channels.

Delivery of our digital strategy is key to this, as it will further improve our service proposition for both members and employers, making it easier to deal with us and reducing administration. It will also improve our operational resilience to protect our data and service continuity.

In addition to continuing the digital strategy, key priorities will include:

- Preparation for the launch of the Pensions Dashboard and responding to the requirements of the McCloud judgement
- Supporting Falkirk as they commence the process of aligning to LPF working practices in preparation for the completion of the merger and fully aligned operations.

## Earn an appropriate risk adjusted investment return as responsible investors

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.



We'll do this by delivering sufficient investment returns over the long term to meet funding targets and seeking to have a positive impact on the economy and society by continuing to integrate Environmental, Social and Governance (ESG) considerations into our investment processes and demonstrating good stewardship of our assets.

Key priorities for 2023 include:

- Continued alignment of investment mandates with Falkirk and Fife pension funds
- Continued integration of climate-related considerations into investment decision making and communication of approach and commitments
- Completing a reassessment of the fund's investment benchmarks
- Continuing to enhance the investment processes and controls applied within LPF whilst ensuring LPFI continues to fully meet its regulatory obligations.

## Extend collaboration and services to existing partners and deepen where possible

Collaboration is key to our success and our key focus over the next year is to progress Project Forth, the potential merger with Falkirk Council Pension Fund, towards completion in 2024. The intention is a seamless integration of members, employers, and colleagues into the new combined organisation.



We'll continue to collaborate through successful investment partnerships. In the short term, this is extending the investment management services to Falkirk and Fife pension funds, whilst continuing to provide advisory services to those funds and to the Borders LGPS and the Northern Ireland Government Officers' Superannuation Committee ("NILGOSC").

We seek to offer reliable and impartial advice to policy makers including the Scheme Advisory Board. We're currently supporting consideration of structural change in the LGPS in Scotland and evolution of climate change reporting for Scottish LGPS funds.



## Achieve greatness in our people, teams and culture

The key to our vision of delivering outstanding pension and investment services for the benefit of members and employers is our people. We're committed to growing a high-performing and inclusive workforce and creating an inspiring employer brand and culture.



We'll achieve this by empowering a broad range of talents to meet our organisation priorities; cultivating leadership competencies and developing succession plans across the team; and by giving our people capacity and encouragement to contribute to our communities.

Having the right people with the right training and in the right roles is key to our success to achieve our vision. Our people processes from recruitment, people management, and training, all need to support the talent we have and the talent that joins us.

Key priorities for 2023 include:

- Proposals to relocate to new offices better suited to the needs of our colleagues
- Further embedding performance management, the "how and what"
- Continuing to support a fully inclusive culture and providing our colleagues with the tools, education, and capacity to do so
- Supporting our communities, making sure each of our colleagues have two days annually to spend giving back to their communities in the manner they chose.

## STRATEGIC PRIORITIES

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### Project Forth

Project Forth, the potential merger with the Falkirk Council Pension Fund, was approved by the Pensions Committee in December 2021. If the merger recommendation is ratified by the City of Edinburgh Council, with equivalent approval by Falkirk Council and the regulators, then the intention would be to merge in 2024. The merger proposals include the creation of a new joint venture that will replace Edinburgh as the Administering Authority and Scheme Manager.

The project anticipates significant work during 2023/24 to align investment and operational processes and to integrate all member, employer, and colleague processes.

The twin objectives are to introduce best practice pension governance as part of the formation of an enlarged Board, including professional Directors, and to create a more efficient and resilient operation through integrating teams and aligning processes. Should the proposals not be ratified as anticipated, then alternative proposals will be developed in pursuit of these two goals of best practice governance and greater efficiency and resilience.

### Responsible Investing

At LPF, we're proud of our efforts to promote responsible investment and are recognised globally for our active participation in collaborative initiatives. Fundamentally, we seek to engage and influence rather than divest and exclude. [Our Statement of Responsible Investment Principles](#) describes our approach in more detail and how this complements and widens ESG considerations.

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

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

### Office Accommodation

To accommodate our growing workforce and facilitate more face-to-face colleague collaboration, we're looking to relocate our office to a larger premises. Potential venues have been identified and following approval by the Pensions Committee, the move is expected to take place in the first quarter of 2024.

## **McCloud and The Pensions Dashboard**

The McCloud judgement will introduce an additional benefit check to ensure that there's no age discrimination following the introduction of the career average benefit calculation. Regulations are expected towards the end of 2023. This will require the collection of additional data on members' past service, the introduction of additional benefit calculations, and remediation of any underpayments. This introduces significant additional complexity and work.

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

## **Good governance and embedding best practices**

The expectations of our members, the regulators and ourselves increase each year. This requires a continued focus on how to improve the effectiveness of everything we do.

During 2023/24 we would expect to:

- Enhance and add to existing risk management arrangements by creating a fully integrated framework based on the following principles:
  - Focus on managing risk across the business in a proportionate and pragmatic way
  - Ensure arrangements are scalable with an emphasis on investing for the future and building resiliency
  - Reduce complexity by standardising processes wherever possible and appropriate
  - Extend the annual internal audit programme to include the LPFE and LPFI entities
- Continue to improve our governance practices moving from effective towards excellence
- Continue to embed our project methodology and programme management office to bring increased discipline and best practices in the area of change management.

## CORPORATE ENTITIES

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### LPFI

LPFI has developed its role and services since inception in 2016. It initially provided investment advice to our partner funds in Fife and Falkirk and now manages equity and bond mandates for them. There's an expectation, subject to appropriate advice and governance, that the range and value of funds under management for our Fife and Falkirk partners will continue to grow during 2023/4.

The growth in assets under management has been enabled by the removal of the LPFI asset cap during 2022. During 2023, as a result of the increase in assets under management, LPFI is expected to be recategorized by the FCA as a non-small non-interconnected ("non-SNI") firm. Recognising that classification and, more fully, the recent evolution in the services provided by LPFI work is underway to review and test many of the processes and controls to ensure they remain appropriate and continue to meet the requirements and expectations of the FCA.

Strategic options considered during 2022 include:

- The potential extension of investment advice and investment management to new LGPS Funds
- The use of collective investment vehicles to improve the efficiency of management for existing clients or support extension of services to new clients
- Bringing the investment activities of LPF within the regulated entity (LPFI) with inherent simplification of working arrangements and improved control through the regulated entity.

In each case, the LPFI Board noted that further investigation of the benefits, requirements and implications would be required whilst noting that, with particular reference to Project Forth, there wasn't the capacity to undertake the necessary investigative work immediately. Despite this, the Board was supportive in principle, particularly to the logic of LPFI undertaking the investment activities on behalf of LPF. It's recognised that the overriding strategic purpose of LPFI is to support LPF in achieving its purpose for members and employers of the Fund.

The intention during 2023/24 is:

- To prepare a business case, including high level requirements and gap analysis for consideration by both the Pensions Committee and LPFI Board for the transition of investment management activities to LPFI under contract to LPF
- Consider an outline business case on the potential options and requirements of LPFI extending services beyond our existing partner funds
- Develop and embed an enhanced risk framework tailored and applied to LPFI, along with further development of the ICARA process and report, and recent assurance and audit exercises, to ensure we continue to meet regulatory requirements and expectations
- To continue to monitor the development of ESG/RI propositions and engage with our partner funds on their relevance, appropriateness, and interest.

## LPFE

LPFE's primary purpose remains to engage our current colleagues and to recruit and train colleagues who support the activities of LPF, LPFI, and in a limited way, Falkirk Council Pension Fund. Growth in headcount in recent years to support the increasing requirements and services has been accompanied by increasing professionalism and capability, enabling LPF to remain at the forefront of the LGPS sector. It's increasingly recognised that considering LPFE as a service company rather than an employment vehicle, can help improve governance and operational arrangements.

Like LPFI, LPFE has been reviewing and improving key systems and processes to ensure they remain fit for purpose for the current and expected future needs of LPF. The review of 2022 and the functional plan for 2023 highlight achievements and plans respectively.

The LPFE Board are supporting the recommendation to relocate to larger premises in 2023/4, recognising the impacts of the limited space on daily operation and colleague engagement. The office move was originally approved in 2019 but deferred as a result of the Covid-19 pandemic and lock-down. We're now in the process of locating and securing a suitable office space.

2023/24 also sees the introduction of stretch targets for the Senior Leadership Team. These have been carefully chosen to encourage over-achievement in key areas with the focus in the initial year on colleague engagement, risk management and strategic progress.



## FINANCIAL PROJECTIONS

### Operating Budget

The table below shows the Group budget for the period 2023/24 with the prior year comparison and movement, as well as the indicative LPF business as usual 2024/25 budget and movement.

#### Total Group Operating Budget 2023/24 and Indicative 2024/25

	Budget 2022/23	Movement	Budget 2023/24	Indicative Movement	Indicative Budget 2024/25
	£000	£000	£000	£000	£000
Employees	6,664	1,333	7,997	596	8,593
Plant and transport	278	28	306	418	724
Supplies and services	2,396	346	2,742	-53	2,689
Third party payments	1,414	105	1,519	-65	1,454
Investment managers fees – invoiced	4,000	-150	3,850	-	3,850
Support costs	620	112	732	30	762
Capital funding	257	-60	197	4	201
<b>Gross expenditure</b>	<b>15,629</b>	<b>1,714</b>	<b>17,343</b>	<b>930</b>	<b>18,273</b>
Income – collaboration	-1,749	-217	-1,966	-104	-2,070
Income – other	-110	-	-110	-	-110
<b>Total income</b>	<b>-1,859</b>	<b>-217</b>	<b>-2,076</b>	<b>-104</b>	<b>-2,180</b>
<b>Net expenditure</b>	<b>13,770</b>	<b>1,497</b>	<b>15,267</b>	<b>826</b>	<b>16,093</b>
<b>Percentage movement on 2022/23</b>		<b>10.87%</b>		<b>5.4%</b>	
<b>Strategic project costs</b>	<b>455</b>	<b>738</b>	<b>1,193</b>	<b>-1,193</b>	<b>-</b>
<b>Total net planned expenditure 2023/24</b>	<b>14,225</b>		<b>16,460</b>		<b>16,093</b>

The largest component of the increased costs relates to employees. The budget assumes two newly created roles in 2023, whilst also allowing for parent leave cover and filling existing vacancies. The majority of the increase, however, is the result of a full year provision for roles recruited in 2022/23 to improve the resilience of the fund and pay reviews. These are in line with the recommendations and approvals made by the LPFE Board.

The strategic cost line relates to Project Forth and the potential for an office move during the 2023/24 financial year. Further detail on this is contained in the Strategic Project Budget section.

There have been some adjustments to the 2022/23 approved budget in relation to uncontrollable investment income and expenditure. Securities Lending income has been removed from the

budgeting process as this treatment was inconsistent with that of other investment income. Uninvoiced investment management fees, and an estimate of the performance element potentially payable on our unlisted assets are uncontrollable, and are disclosed separately in the below budget analysis.

**Uncontrollable Costs (in the short term as reflective of current investment strategy)**

	Budget 2022/23 £000	Movement £000	Budget 2023/24 £000	Indicative Movement £000	Indicative Budget 2024/25 £000
<b>Investment Managers Fees</b>					
- Uninvoiced Base Fees	19,323	3,277	22,600	-	22,600
- Uninvoiced Performance Related	9,000	-	9,000	-	9,000
<b>Investment Managers fee contingency</b>	10,000	5,000	15,000	-	15,000

The other area to note is the investment manager fee contingency. This has been a consistent feature of the LPF budget process and has been retained this year. Due to the increase in the size of the team and the fact that this contingency hasn't been updated for a number of years, it's seen as prudent to increase this contingency to £15m. There's no expectation that in-house investment management will cease and these contingency fees be required.

## Strategic Projects Budget 2023/24

	BAU Budget 2023/24	Project Forth Movement	Office Relocation	Proposed budget 2023/24
	£000	£000	£000	£000
Employees	7,997	347	0	8,344
Plant and transport	306	0	271	577
Supplies and services	2,742	0	26	2,768
Third party payments	1,519	1,064	0	2,583
Investment managers fees - invoiced	3,850	0	0	3,850
Support costs	732	0	0	732
Capital funding	197	0	30	227
<b>Gross expenditure</b>	<b>17,343</b>	<b>1,441</b>	<b>327</b>	<b>19,081</b>
Income – collaboration	-1,966	-545	0	-2,511
Income – other	-110	0	0	-110
<b>Total income</b>	<b>-2,076</b>	<b>-545</b>	<b>0</b>	<b>-2,621</b>
<b>Net expenditure</b>	<b>15,267</b>	<b>866</b>	<b>327</b>	<b>16,460</b>

<b>Capital expenditure</b>	<b>0</b>	<b>0</b>	<b>900</b>	<b>900</b>
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### Uncontrollable Costs (in the short term as reflective of current investment strategy)

<b>Investment Managers Fees -</b>	22,600	1,425		24,025
Uninvoiced Base Fees				
Uninvoiced Performance Related	9,000			9,000

The costs included for Project Forth are solely for the year 2023/24. They include both project operational costs in the main budget and the notional investment transition tax cost reflected in the uncontrollable investment management fees section. Whilst the latter will only be paid on completion of the merger, the former, by their nature, will be incurred as the project progresses. The table highlights that a proportion of the project costs will be recharged to Falkirk (included as “Income – collaboration”).

A pro-forma budget for 2024/25 for the merged fund incorporating the additional costs for the transferring colleagues, assets and other costs, will be prepared and included in an updated version of this plan once committee/council approval has been received.

A short list of three office spaces has been identified and a budget is included with the current understanding of the costs associated for the preferred option.

The indicative 2024/25 budget assumes the completion of Forth and the relocation of LPF’s office to new premises. All project costs have been removed and ongoing annual business as usual costs have been included.

## Cash-flow forecast

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 figures in the below table consider the actual annual cash-flow of 2021/22 and the projected 2022/23 cash movements to project the expected cash in and outflows for the next five years.

	2021/22	2022/23	2023/24	2025/26	2026/27	2027/28
	Actual	Projected	Projected	Projected	Projected	Projected
Income	£'000	£'000	£'000	£'000	£'000	£'000
Contributions from Employers	194,223	200,400	224,448	240,159	254,569	285,118
Contributions from Employees	51,055	52,000	53,300	54,633	55,998	57,398
Transfers from Other Schemes	49,894	20,000	4,000	4,000	4,000	4,000
	<b>295,172</b>	<b>272,400</b>	<b>281,748</b>	<b>298,792</b>	<b>314,567</b>	<b>346,516</b>
Expenditure						
Pension Payments	(187,565)	(196,000)	(213,248)	(232,014)	(252,431)	(274,645)
Lump Sum Retirement Payments	(51,222)	(61,500)	(64,575)	(67,804)	(71,194)	(74,754)
Refunds to Members Leaving Service	(551)	(500)	(500)	(500)	(500)	(500)
Transfers to Other Schemes	(5,734)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)
Administrative expenses	(2,859)	(2,900)	(3,045)	(3,197)	(3,357)	(3,524)
	<b>(247,931)</b>	<b>(266,900)</b>	<b>(287,368)</b>	<b>(309,515)</b>	<b>(333,482)</b>	<b>(359,423)</b>
<b>Net pension cash flow</b>	<b>47,241</b>	<b>5,500</b>	<b>(5,620)</b>	<b>(10,723)</b>	<b>(18,915)</b>	<b>(12,906)</b>
<b>Net investment income</b>	<b>228,700</b>	<b>250,000</b>	<b>260,000</b>	<b>270,400</b>	<b>281,200</b>	<b>292,460</b>

Excluding one off exercises like the bulk transfer in of an employer in 2020/21 which continued into 2021/22, LPF expects to have a negative cash flow position for the foreseeable future, whereby pension payments exceed total contributions received.

With strategies that typically deliver relatively high income, it's expected that investment income will more than offset negative net pensions cash-flow with no asset sales being required to fund on going pensioner payments.

## FUNCTIONAL PLANS

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Each team within LPF has prepared detailed functional plans setting out their key deliverables, priorities, and risks. The following section provides a summary of these.

### Investments

The Investment team supports the Pensions Committee setting and implementing the investment strategy. It manages a significant majority of assets internally and oversees external managers, who also invest on our behalf.

In addition, operating through LPFI, the team manages over £1bn of assets for the Falkirk and Fife LGPS funds, provides both funds with strategic advisory services and collaborates with two other LGPS funds (NILGOSC and Scottish Borders) by arranging private market investments, which it does for all five funds. The funds continue to explore areas in which they can improve efficiencies and returns through synergies and expect to expand their collaborative activity, including alignment activity related to Project Forth.

LPF has been a long-term advocate of Responsible Investment (RI) and promotes integration of environmental, social and governance (ESG) considerations into investment decision-making. This is an integral part of the investment process and the investment team, directly and indirectly through collaborative initiatives, engages with corporates and policymakers on a range of issues to influence strategy, reduce risk and enhance sustainability. It also leads on RI and climate change reporting activities and obligations.

Strategic priorities for 2023/24 include:

- Implementing the Pension Committee's strategy and initiating an investment strategy review project in conjunction with the 2023 Actuarial Valuation
- Onboarding new LPFI mandates for Falkirk to support alignment activities as part of Project Forth
- Continued integration of climate-related considerations into investment decision-making, including carbon risks and decarbonisation opportunities, as well as expanding climate-related reporting to meet new regulatory requirements
- Reviewing and enhancing investment operational activities, including internal and external service provider management
- Responding to an investment services review by agreeing and implementing recommended changes and or improvements
- Implementing a front office software upgrade
- Reviewing team structure and undertaking recruitment to ensure resilience.

## Operations

The Member Services teams deliver the core services to our members and employers.

These services include supporting new joiners to the fund, payment of pensions and benefits, issuing annual benefit statements and supporting all other administration services and queries. In addition, the team manage the relationship with the scheme's actuarial advisors and work closely with them on the scheme valuation, cessation and transfer valuations, and the application of the Funds' funding strategy.

The Data & Quality team looks after data accuracy, quality of information and service. The Customer Experience Team is responsible for simplifying and streamlining our processes, identifying digital opportunities, responding to customer feedback, and making improvements.

The service standards they work to are set out in Appendix 2 and remain the same as 2021/22. Maintaining PASA accreditation and the CSE award, and meeting the required regulatory standards are the expectations from these teams.

The high-level focus for the Operations team in 2023/24 includes:

- Continuing the Digital Transformation project. Further detail of which is included in the Project and Change section of this plan
- Customer journey mapping
- Preparation and implementation of the requirements of the McCloud judgement and the Pensions Dashboard
- Preparation and support for the 2023 Triennial Actuarial Valuation as at 31 March
- Funding Strategy review
- Supporting Project Forth, working with Falkirk seeking to align working practices as much as possible in advance of the proposed merger and the full integration and alignment after the merger. This will also encompass overseeing the final scheme valuations for FCPF and LPF
- Gaining PASA reaccreditation
- Conducting a review of employer performance.



## IT & Change

2023 will see the IT & Change team continue to manage and build on the LPF IT service delivered by third-party vendor Cased Dimensions, leveraging the existing service, and deploying or developing new solutions and technologies to enhance the value gain.

The team will deliver significant support to the development of digital opportunities for member services, Project Forth, office re-location and other new services and procurement. IT & Change will also provide governance through ITOCG and embed the PMO, its process and methodologies. They'll also continue to support projects / new services and procurements with a focus on the new finance system.

The key priorities for 2023/24 are:

- The launch and embedding of our newly developed Information Security Management System (ISMS)
- Supporting and responding to an Internal Audit of our information security arrangements
- External Audit ISMS against ISO27001
- Support the procurement of a new Risk and Compliance system
- Support data analytics, management, and classification.
- Review our IT architecture, prepare and document our future IT Strategy.

## Governance, Legal, Risk & Compliance

Collectively these governance functions ensure that LPF and subsidiaries meet all corporate, legal, and regulatory obligations. The Governance team act as a Company Secretarial function for the Pensions Committee and subsidiary Boards and maintain the corporate policy register. The Risk and Compliance functions maintain the risk management framework, oversee the three lines of defence model whilst providing oversight and advisory services. Lastly the Legal function provides legal advice and is responsible for the third-party supplier framework and contract management.

Key priorities 2023/24 include:

- Project Forth – corporate structure design and, if approval is granted, provide legal and regulatory support and change of control and oversight of the management of risks in relation to the merger transition and implementation. This will include establishing new internal audit arrangements
- Manage the complete roll out of the Board portal
- Development and embedding of a toolkit and methodology to facilitate the risk management framework and review, selection and implementation of the new Governance, Risk and Compliance system to support the framework
- Review adequacy and effectiveness of monitoring arrangements
- Working with Finance, manage the Internal Capital and Risk Assessment process and resulting ICARA report for LPFI

- Continue to enhance the Data Protection, Information Governance and Procurement processes as a result of general growth, and the growth of regulation and regulatory requirements.

## Finance

The Finance function is responsible for all aspects of planning, budgeting, and reporting of LPF's finances. This includes preparation of the Annual Report and managing the external audit process. Tax, maintaining the unitised valuations for the Fund, procurement and working with the custodian Northern Trust complete the main areas of responsibility.

As with all functions, the Finance team will have a key role to play in supporting Project Forth. This includes the integration of all legacy Falkirk financial and actuarial matters to the LPF ways of working, and the transfer of any finance activities from the Falkirk and City of Edinburgh Councils. This encompasses the transfer and integration of custody requirements and extending the LPF funding and unitisation strategies to the transferring members and employers.

In addition to Project Forth, the Finance team will be focussing on:

- Co-ordination of the Strategy and Business Plan Reporting
- Implementation of the new Finance system and accounting ledger
- Integration of the supplier management database with the payment/invoicing process for the new Finance system
- Roll out of the new budget monitoring process with increased oversight for budget holders
- Support the Investment Services review being conducted by the Risk and Compliance team
- Preparation for the retender of Custody services with the intention for a new contract implementation around six months post merger
- Review of manual Finance processes for efficiency gains or process automation via existing or new software (including but not limited to the new Alteryx tool)
- Investment Management cost transparency and value analysis using CTI and CEM benchmarking data
- Review of disclosure requirements for ESG and financial reporting in collaboration with the investment team
- Preparation and support for the triennial valuation as at 31 March 2023 including liaison with the actuary to determine the appropriate financial and demographic assumptions, and ensuring the funding implications are suitably reflected within the resulting revised Funding Strategy Statement
- Ongoing management of LPF group cashflow and, in particular, regular review of the LPFI liquidity and preparation of the FCA required data in collaboration with the Risk and Compliance team.

## People & Communications

Core deliverables of the Communications team include production and distribution of key documents including the Annual Report, the Statement of Responsible Investment Principles, *ENGAGE* ezine and the Stewardship Report. In addition, the team manages internal communications, events, external media and the look and feel of member and employer communications.

The HR team is responsible for supporting the business in resourcing and colleague management including reward, learning and development and the full suite of HR policies. They're responsible for colleague engagement and run twice annual colleague surveys to gain feedback from colleagues and find out what is going well/ where we can make improvements, as well as facilitating the Inspire colleague recognition awards. Office management, business continuity and health and safety also fall under their remit.

In addition to these core deliverables, in 2023/24 the teams will be heavily involved in Project Forth. This will include:

- Clear and comprehensive communication to all members, employers, colleagues, and other stakeholders on the rationale and impacts of the merger. This will include the development and branding of the new company and fund
- The transfer and integration of the Falkirk employees in to the LPF operating company
- The current intention is to retain an office presence in the Falkirk area, and the P&C team will work with the property and IT team on the fitting out of the selected accommodation
- Taking full responsibility for Health & Safety and other People services from CEC.

Additional areas of focus for these teams will be:

- Investigating and rolling out a new colleague benefits platform and continuing to roll out and embed the new HR system 'People HR'
- Managing the acquisition, fit out and transition to a new office location
- Updating and reviewing our HR policies.

## CEC Shared Services

City of Edinburgh Council (CEC) have three relationships with LPF. Firstly, as Administering Authority and Scheme Manager they're responsible in legislation for the management of the LGPS in the Lothians. They delegate the running of the Fund to the Pensions Committee and two arm's length operating companies (LPFE and LPFI) in this regard. Secondly, being one of 67 contributing employers connected to the Fund, they're the employer with the largest number of active, deferred and pensioner members.

Lastly, they provide services to the Fund, including:

- Provision of Internal Audit services
- Provision of a finance system (ledger), payment and procurement services
- Provision of company secretarial services to support the Pensions Committee.

In addition, CEC have oversight responsibility. This, with associated advisory input, is provided by:

- The Information Governance Unit and Data Protection Officer
- Information Security.

In 2023/24 the expectations for these shared services are as follows:

- Internal Audit will continue to provide audit services in 2023/24 which are expected to cover a range of processes operating within LPF, as well as a review of Project Forth. PwC will perform the audits on behalf of the CEC IA function through an established co-source agreement, whilst the annual audit opinion will be provided by CEC IA until new arrangements are established with the new Project Forth entity
- The CEC Information Governance and Information Security teams will help support the design and implementation of stand-alone frameworks for LPF. A standalone capability is both desirable from the perspective of effective governance of LPF and will be essential on completion of Project Forth
- Similarly, the CEC Finance and Procurement team will be involved in both an advisory and oversight role as LPF look to implement its own finance system, and transition to a full independent capability.

A key element within Project Forth will therefore be to ensure that LPF have transitioned all CEC provided services either in-house or to an agreed third-party provider, and that all appropriate frameworks and procedures are updated accordingly.

## PROJECTS & CHANGE

The IT and Change functional plan set out the intention to introduce a Programme Management Office and Change methodology. The latter will differentiate between projects, small change, and non-project change activities, and will recognise that different degrees of governance and practices will be appropriate for each.

The table below sets out the current list of formal projects.

Project Name	Objective	Project Sponsor	Delivery Timescale
Project Forth	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.	CEO (David Vallery)	2023/24
Finance Systems	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.	CFO (John Burns)	Q3 2023
Digital Transformation	To ensure the digital service offering for both members and employers is class leading for the pensions industry.	COO (Karlynn Sokoluk)	2023/24
McCloud	Ensure rectification of historic LGPS age discrimination in accordance with (future) regulations and timetable, together with requisite member communications.	COO (Karlynn Sokoluk)	2023/24
Climate Disclosure and Strategy Project	To satisfy annual reporting requirements and SRIP revisions, which involves reviewing existing and prospective regulations, data requirements, data suppliers, budget implications, including time resource, and deciding on what commitments can and should be made.	CIO (Bruce Miller)	2023/24
Pensions Dashboard	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.	COO (Karlynn Sokoluk)	2023/4
Multi-fund Employers	Develop business cases and processes to support employers who are considering or might benefit from consolidation from participating in multiple LGPS funds.	COO (Karlynn Sokoluk) and CFO (John Burns)	2023/24

## ORGANISATIONAL DESIGN



The headcount of LPF increased by 17 over 2022. We recruited a Chief Operating Officer and a new Chief Risk Officer taking the opportunity to reorganise both functions to create more focussed teams.

The table below shows the expected evolution of full-time equivalent roles (FTE) over 2023. It assumes the current functional structure is maintained over this period.

Team, role/Full Time Equivalent (FTE)	Jan 23	*Jan 24
<b>CEO</b>	1	1
Governance	3	3
Legal	4	4
<b>COO</b>	1	1
IT and Change	4	4
Member Services	32.64	33.64
Employer Services	4.00	4.00
Customer Experience and Data Quality	4.03	4.03
<b>CFO</b>	1	1
Finance	9.47	11.47
<b>CIO</b>	1	1
Investment Professionals	15.6	16.6
Investment Operations	2.38	2.38
<b>CRO</b>	1	1
Risk & Compliance	3	4
<b>CPO</b>	1	1
People	2	2
Communications	2.8	2.8
<b>Total</b>	<b>92.9</b>	<b>97.9</b>

FTE is expected to increase during 2023 within Risk and Compliance, Finance, Investments and Member Services with a combination of new roles and filling existing vacancies.

\*These figures exclude the impact of the potential merger and integration with Falkirk (+20 FTE).

## RISKS

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LPF maintains a comprehensive group wide risk register and reports on this to the Pensions Committee and its Audit Sub-Committee and to each of the LPFE and LPFI Boards. The scope of Internal Audit will be extended to include LPFE and LPFI in 2023/24, further improving the control environment.

The risk register and reports issued to the Boards and Committee have been reviewed to reflect this business plan and the risks inherent in it.

No new risks have been added to the risk register based on the plans set out and these risks being inherent to the fund are not repeated here. However, the plans as proposed bring increased risk as set out below.

### Business Plan Risks

Management stretch and resource risk is recognised as the key risk. In particular, seeking to deliver Project Forth alongside other business changes and maintaining appropriate focus on 'business as usual'. Stretch in the context of project, change and assurance activities is being closely monitored, with organisational plans, succession plans and recruitment all recently reviewed and approved by the LPFE Board. Project Steering Groups, the LPF SLT and LPFE Board continue to actively monitor this risk and will take appropriate action as required.

Culture and engagement risk remains moderate due to the hybrid working model which promotes part time home working. The increase of headcount during 2022 has contributed to this risk, particularly as new employees have been onboarded, perhaps with limited opportunities to meet new colleagues face to face or across the broader business, and the pressure on the office space has also exacerbated this. Ongoing communication with team calls, all colleague briefings and away days have helped to bring colleagues together remotely and in person and created opportunities to meet peers and network more widely. The planned office move in 2023/24 will also significantly mitigate this risk by delivering a more effective and comfortable office environment with increased capacity to allow more staff to be accommodated at any one time.


"Change fatigue" has also been raised as a potential risk, largely driven by the delays to Project Forth as well as the characteristics noted above regarding the risks around resource stretch and culture and engagement. Strong leadership, clear communication and rigorous prioritisation are key to managing this, and likewise the LPF SLT and LPFE board will keep this under review.

Regulatory risk has slightly elevated. This is consistent with LPF's values, particularly regarding continuous improvement, and reflects the intention to enhance current arrangements around investment services and risk management which will take into account the changes across LPF during the last few years. Plans have been drafted to facilitate this improvement programme and enhancements will be delivered during 2023 and into 2024.

## Project Risks

- Each of the projects set out in this plan and any that are added to the change programme will have project specific risk registers and a statement of project risk appetite. Improved project risk reporting will continue to evolve through the creation of the Project Office.

## APPENDIX 1: KEY PERFORMANCE METRICS

	<b>DEVELOP AND DELIVER A MEMBER AND EMPLOYER PROPOSITION FOR SERVICE EXCELLENCE</b>
	Customer Satisfaction, as measured by employers and members through survey results > 90%
	>92% of critical pensions administration work completed within standards
	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 2023 (members’ Annual Benefit Statements)
	The Fund operates within the approved budget
	The audit of the Annual Report is unqualified
	<b>EARN AN APPROPRIATE RISK ADJUSTED INVESTMENT RETURN AS RESPONSIBLE INVESTORS</b>
	Rolling 10-year fund return is >+5% pa unless the benchmark is <+5%pa, in which case, the relative return is positive
	Publish <i>ENGAGE</i> , Revised SIP and SRIP
	<b>RISK, GOVERNANCE, LEGAL AND COMPLIANCE FRAMEWORKS</b>
	Mandatory LMS training completion rate >90%
	<b>ACHIEVE GREATNESS IN OUR PEOPLE, TEAMS, AND CULTURE</b>
	The Employee Engagement index KPI of 70% or above
	Less than 10% unplanned employee turnover

## APPENDIX 2: 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 is 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%