

Pensions Committee

2.00pm, Thursday, 23 March 2023

2022/23 Business Plan and Budget Update

Item number 6.8

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:
 - performance indicators
 - membership and cashflow monitoring
 - investment strategy update
- 1.2 approve the extension of the global custody services contract with The Northern Trust Company, by way of a waiver of the Council's Contract Standing Orders, for the period from 1 October 2023 to 30 September 2024 (see paragraph 4.) and approve the extension of services to include performance measurement for the period 1 July 2023 to 30 September 2024 as the result of the exit of our current supplier from the market (see paragraph 4.).

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2022/23 Business Plan and Budget Update

2. Executive Summary

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

3. Background

- 3.1 The 2022-2023 Business Plan centres around four broadly defined strategic goals, each with more detailed objectives and accompanying targets and measures to allow us to monitor our progress and identify where interventions may be required.
- 3.2 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
- 3.3 The plan set out the work plans, budget and targets for 2022-23 and formed the base line against which performance would be and has been judged.

4. Main Report

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

Performance Indicators

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

Pension Administration performance indicators

- 4.3 Overall, we are achieving our overall critical performance target and categories of key performance indicators. We have seen some fluctuations in volumes for some of our key categories of service requiring the operational managers to monitor the

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

- 4.4 Our Chief Operating Officer has introduced a new Customer Experience Team into the operating model which will be focused on improving the customer experience, simplifying, and streamlining processes whilst identifying further opportunities for digital enhancements. A roadmap of key moments that matter and customer journey reviews will take place throughout this business year to ensure we are adding value in every interaction and listening to the voice of our customers using a variety of feedback mechanisms.

Accreditation

- 4.5 Following the yearly review on 16 March 2022 Lothian Pension Fund successfully retained the [Customer Service Excellence Standard](#). CSE has four ratings – noncompliant, partial compliant, compliant, or compliant plus. The assessor awarded us the highest standard of compliant plus in all categories: (i) Engage and Involve Customers (ii) Corporate Commitment to Service Delivery (iii) Information Channels and (iv) Beneficial Partnerships. We are currently in the process of finalising this year's submission and we will conclude this by the end of March.

Digital transformation of services

- 4.6 Active, deferred, and early leavers (retirements, refunds and transfers out to a new pension provider) members can now complete the entire process through their My Pension Online account. Our largest work volumes are processing retirements and we have significantly reduced the average turnaround time to send retirement information and process the pension payments of the MSS (Member Self Service) online retirements from an average of 70 days when paper based down to just 7 days online. We now use biometric facial recognition for our overseas pensioners in their annual check providing them the opportunity to complete this themselves by uploading documents for proof of identity requirements, removing the need for them to travel to have certificates and in person authentication completed at a local Western Union branch. In addition, we will soon assist next of kin when notifying us of a bereavement by enabling them to do this via uploading documents online as well as providing all the information they need should they prefer not to speak to someone at such a difficult time.

McCloud

- 4.7 The McCloud remedy seeks to rectify the unlawful discrimination which occurred when the LGPS (Local Government Pension Scheme) (Scotland) changed from a final salary scheme to a Career Average scheme on 1 April 2015. When the scheme changed, a protection called the underpin was put in place to protect those approaching retirement. This was deemed unlawful and as a result the underpin protection now applies to a larger group of members. For these members we must check that the final salary benefits the member would have received, had the scheme not changed, are not greater than the Career Average benefits for the same period. Where the final salary benefits are greater, an underpin amount will be applied to the members benefits. The remedy can cover both active members and those who have left the scheme. Work has begun on prepping data requests to send to employers. The Fund is required to validate the service histories we hold for members with what their employers hold. This will ensure that the underpin calculation is accurate. The Fund is also receiving updates to the pensions administrations software, delivered by Heywood, to ensure the relevant tools are in place to deliver the McCloud remedy. These so far include - a report to identify those members in scope, the McCloud rectification screen, and the age 65 final pay capture on i-connect and delivery of a date validation dashboard into our reporting tool insights.

Pensions Dashboard Programme

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

The LGPS Amendment Regulations 2022

- 4.9 As previously reported to Pensions Committee in September 2022, amendment regulations introduced further flexibilities to employers exiting the Scheme. The fund amended its Funding Strategy Statement to set out policies on the operation of these flexibilities. As required under the regulations, a consultation exercise was carried out the with fund employers. No responses were received.

Actuarial Valuation

- 4.10 The next triennial valuation of the funds (Lothian Pension Fund and Scottish Homes Pension Fund) will take place as at 31 March 2023. A preparatory meeting has taken place with the fund actuary to discuss the project, and a training online seminar has been held with employers – ‘The Importance of Data’. Further updates will be provided to Committee during this year.

Membership and Cashflow monitoring

- 4.11 Tables detailing the cashflows as at the end of December 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.

Investment Strategy Update

- 4.14 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 on 17 February 2023.

Main Strategy Policy Group	Range	Percentages		
		Target	Actual	Deviation
Equities	50-70	60	60.6	0.6
Real Assets	10-30	20	19.9	-0.1
Non Gilt Debt	0-20	10	6.5	-3.5
LDI (Gilts)	0-20	10	8.4	-1.6
Cash	0-15	0	4.7	4.7
TOTAL		100	100.0	0.0

- 4.15 The policy group allocations, which remain comfortably within the permitted ranges, are monitored by the internal team with additional oversight by the Joint Investment Strategy Panel (JISP), which meets at least quarterly.
- 4.16 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.
- 4.17 The underweight positions in Non-Gilt Debt and LDI and the overweight position in Cash reflect the assessment that bond prices are vulnerable to increasing inflation expectations. That vulnerability was exposed in dramatic fashion last September when some funds with leveraged positions were forced to raise collateral as interest rates rose quickly. With real yields on UK gilts back in positive territory, the Fund bought into this weakness and reduced the underweight position in the LDI policy group, which is entirely comprised of UK gilts (without any borrowing involved).
- 4.18 The only other area to highlight in terms of transactional activity is in the Real Assets policy group for which infrastructure and property purchases have been concluded over the last few months. Cash has declined from over 7% to under 5%.
- 4.19 The Fund’s advisers continue to describe the investment backdrop as “challenging”. This is a function of prospective volatility in inflation, rising interest rates, geopolitical uncertainties, and redirection of resources required to mitigate climate-related impacts. Many asset valuations remain at the high end of historical ranges.

Stewardship

- 4.20 In October 2022, the Pensions Committee reviewed the Fund’s submission to the Financial Reporting Council (FRC) to remain a signatory to its Stewardship Code. In February 2023, the FRC confirmed that the submission had been successful. The Fund’s Stewardship Report is published on the Fund’s website.
- 4.21 To retain signatory status, the Fund must file an Annual Stewardship Report for assessment, which the asset owner’s governing body has reviewed. This year, the Pensions Committee will be asked to review the updated report in September rather than October.

- 4.22 The Fund had planned to publish issue 6 of its investment e-zine, ENGAGE, during the second half of 2022. Due to resource constraints, this was delayed until early 2023, but has now been published to the Fund’s website. It covers a brief review of investment markets in 2022, a responsible investment update, an article on how the Fund integrates ESG considerations into investment decisions and news of an award-winning initiative by the internal property team.

Northern Trust Contract

- 4.23 As the committee has been previously notified, the Fund was in the process of preparing a procurement call-off award of contract for global custody services from a National LGPS framework operated by Norfolk County Council. The Fund intended to jointly procure services alongside its collaborative partners, Falkirk and Fife.
- 4.24 Due to Project Forth and the potential material impact that the restructuring could have on the procurement exercise, committee approved the extension of the existing contract by waiver to 1 October 2023 on the expectation that the merger would take place on 31 March 2023.
- 4.25 The Fund is seeking approval to revise the proposed procurement timetable to postpone a new custody services contract coming into effect until 1 October 2024 (assuming merger date 31 March 2024).
- 4.26 The Fund is also seeking approval by waiver to add Performance Measurement to the services provided by Northern Trust. Our current provider Portfolio Evaluation notified us of its intention to exit the market in June 2023.
- 4.27 In recent years the market for Investment Performance Measurement has evolved, and it is typically now seen as an add on service to custody services. This was already becoming evident at the time of the last Performance Measurement procurement exercise in 2016.
- 4.28 The Performance Measurement service can, therefore, be expected to be another element in the Fund’s future Custody procurement exercise to ensure appropriate competition.

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	-	5,345	5,151	(194)
Transport & Premises	278	260	(18)	209	199	(10)
Supplies & Services	2,396	2,241	(155)	1,797	1,748	(49)
Investment Managers Fees - Invoiced	4,000	3,400	(600)	3,000	2,233	(767)
Investment Managers Fees - Uninvoiced	20,725	20,725	-	15,544	15,544	-
Other Third Party Payments	1,727	1,550	(177)	1,295	1,056	(239)
Central Support Costs	620	620	-	465	458	(7)
Depreciation	257	275	18	193	156	(37)
Gross Expenditure	37,129	36,197	(932)	27,848	26,545	(1,303)
Income	(2,579)	(2,387)	192	(1,934)	(1,022)	(912)
Total Cost to the Funds	34,550	33,810	(740)	25,914	25,523	(391)

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

5.3 The projection shows an underspend of approximately £740k. The key variances against budget are:

- Employees – Cautious forecasting shows spend expected to be in line with budget for year.
- Investment Management Fees -Invoiced - £600k underspend. Current market values below figures budgeted and £50m divestment from Nordea mandate took place in July.
- Supplies & Services - £155k underspend. System costs, including potential new finance ledger, are expected to be significantly below budget.
- Other Third-Party Payments - £177k underspend. Represents independent investment advisor and investment research costs being lower than originally budgeted.
- Depreciation - £18k overspend. Decision taken to write off the Atria refurbishment costs over 2022/23 -2023/24 financial year, with potential of

office move. This is offset by the new finance system being less than originally budgeted.

- Income - £192k under budget. As LPFI operates a cost sharing mechanism with collaborative partners underspends in expenses result in lower recharges to clients. This coupled with delays in the expected roll out of addition investment mandates has led to a lower than budgeted income for the year.

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.

5.5 The value of the contract extension with Northern Trust is estimated to be £620,000. The extension period best aligns the timing of future procurement to capture anticipated sizeable scale economies.

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

7. Background reading/external references

7.1 [LPF Strategy and Business Plan 2022/23](#)

7.2 [LPF Investment Strategy](#)

7.3 [Statement of Investment Principles](#)

7.4 [Stewardship Code](#)

8. Appendices

Appendix 1 – Business Plan Performance Indicators and Forecast Cashflow












**Business Plan Performance Indicators
and Forecast Cashflow**

Pensions Committee









23 March 2023

Key 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%	93.9% (Year to date 93.9%)	90%	
>92% of critical pensions administration work completed within standards	98.5%	95.9%	98.5% (Year to date 97.7%)	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	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	Pass (Year to date Pass)	Pass	
Publish ENGAGE, Revised SIP and SRIP	Pass	Pass	Fail (Year to date Pass)	Pass	
The Employee Engagement index KPI of 70% or above	76%	79%	79% (Year to date 79%)	70%	
Less than 10% unplanned employee turnover	8.6%	5.8%	6.6% (Year to date 6.6%)	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%	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%	98.01% (Year to date 97.1%)	96%	
Percentage of employer contributions paid within 19 days of month end (Service3)	99.9%	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%	100% (Year to date 100%)	91%	
Notification of dependant benefits within 5 working days of receiving all necessary paperwork. (Service5)	96.2%	98.3%	95.6% (Year to date 96.6%)	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%	97.7% (Year to date 97.1%)	91%	
Notify members holding more than 3 months, but less than 2 year service, of their options at leaving. Target is within 10 days of the end of the one month and a day lying period or after the employer providing full leaving information if later.(Service7)	92.4%	94.2%	97.4% (Year to date 96.3%)	85%	
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form. (Service8)	99.2%	98.8%	97.0% (Year to date 98.3%)	91%	
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation. (Service9)	100%	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%	98.2% (Year to date 98.4%)	96%	
Payment of CETV within 20 working days of receiving all completed transfer out forms. (Service11)	97.9%	100%	94.4% (Year to date 97.2%)	96%	

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Pension Admin Workflow - Non Key Procedures Performance. (Service12)	79.0%	76.9%	75.4% (Year to date 77.0%)	75%	
Proportion Of Members Receiving A Benefit Statement By 31st August (Service13)	100%			100%	
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request. (Service14)	100%	100%	99.6% (Year to date 99.8%)	91%	
Provide new members with scheme information within 20 working days of getting details from employer (Service15)	100%	92.8%	99.7% (Year to date 97.6%)	96%	
Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider. (Service16)	90%	100%	100% (Year to date 97.4%)	96%	
Respond In Writing Within 20 Working Days To Formal Complaints That Have Escalated From Frontline Resolution, Or Recorded Directly As An Investigation (Service17)	100%	100%	100% (Year to date 100%)	100%	
Level of sickness absence (Service18)	1.8%	2.0%	2.1% (Year to date 2.6%)	4%	
A minimum of twenty hours training for all staff for the year (Service19)	27%	47%	80% (Year to date 72%)	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
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. Project Lead - CEO (David Vallery) Timescale – 2022/23	On track noting agreed change in completion date. Detailed updated provided in additional report.	
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. Project Lead - CFO (John Burns) Timescale – Q2 2023	Procurement process complete, and preferred system passed initial assurance testing. Onboarding of new system has commenced which will continue into 2023/24 financial year.	
Digital Transformation	To ensure the digital service offering for both members and employers is class leading for the pensions industry Project Lead - COO (Karlynn Sokoluk) Timescale – 2022/23	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. Next of Kin notifications can now be done via website and documents uploaded directly onto our system.	
McCloud	Ensure rectification of historic LGPS age discrimination in accordance with (future) regulations and timetable, together with requisite member communications. Project Lead - COO (Karlynn Sokoluk) Timescale – 2023/24	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. New insights tool Feb 23 to assist with analysis of data and provide report functionality.	
Climate Disclosure and Strategy Project	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. Project Lead - CIO (Bruce Miller) Timescale – 2022	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.	

Project Name	Objective	Update	Status
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. Project Lead - COO (Karlynn Sokoluk) Timescale – 2023/24	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.	
LPF Website	Introduce a single website, consolidating and extending functionality from the three existing websites. Project Lead - CPO (Helen Honeyman) Timescale – 2022	Complete	
Information Governance Improvement Plan	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. Project Lead - CRO (Kerry Thirkell) Timescale – 2022	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 Q1 2022.	
IT Security Improvement Plan	Implement the recommendations of the 2021 Bridwell Security review. Project Lead - Head of IT (Anne Mitchell) Timescale – 2022/2023	Good progress being made. Complete implementation of full suite of recommendations and further test/monitoring in Q1 2023.	

Membership and Cashflow Monitoring as at 31 December 2022

Lothian Pension Fund

2021/22 Actual £'000	Income	2022/23 YTD £'000	2022/23 Projected £'000
200,181	Contributions from Employers	144,096	210,500
53,054	Contributions from Employees	41,337	55,000
17,544	Transfers from Other Schemes	4,889	7,000
270,779		190,322	273,700
	Expenditure		
(195,116)	Pension Payments	(153,953)	(206,000)
(60,453)	Lump Sum Retirement Payments	(45,546)	(66,000)
(531)	Refunds to Members Leaving Service	(616)	(830)
(5,874)	Transfers to Other Schemes	(9,884)	(13,000)
(2,800)	Administrative expenses	(2,250)	(3,000)
(264,774)		(212,249)	(288,830)
6,005	Net Additions/(Deductions) From Dealings with Members	(21,927)	(16,330)

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	(4,699)	(6,300)
(546)	Lump Sum Retirement Payments	(565)	(750)
-	Transfers to Other Schemes	(17)	(100)
(53)	Administrative expenses	(68)	(90)
(6,959)		(5,349)	(7,240)
(6,869)	Net Additions/(Deductions) From Dealings with Members	(5,259)	(7,150)