Pensions Audit Sub Committee

2.00pm, Tuesday, 26 September 2023

Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund

Item number 6.2

1. Executive Summary

The Pensions Audit Sub Committee (Committee) is requested to:

1.1 invite the Pension Board to raise any relevant matters or concerns which the Committee should consider;

1.2 note the report by Azets Audit Services 'Lothian Pension Funds 2022/23 Annual Audit Report to Members of the Pensions Committee and the Controller of Audit' (at Appendix 1);

1.3 note the audited Annual Report for the year ended 31 March 2023 for the Lothian Pension Fund and the Scottish Homes Pension Fund (at Appendix 2);

1.4 note that the audited financial statements, for the year ended 31 March 2023, of both the wholly owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in June 2023. These statements are shown in full at Appendices 3 and 4;

1.5 note the further Appendix 5, 'Letter of Representation (ISA 580), by the Chief Finance Officer, Lothian Pension Fund;

1.6 highlight any points that it would like to raise at the Pensions Committee on 2 September 2023

Alan Sievewright

Chief Finance Officer, Lothian Pension Fund

Contact: Jason Koumides, Financial Controller, Lothian Pension Fund

E-mail: lpfgovernancecomms@lpf.org.uk | Tel: 0333 996 1900

Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund

2. Executive Summary

2.1 The purpose of this report is to present the Audited Annual Report (and Financial Statements) for the year ended 31 March 2023 for Lothian Pension Fund and Scottish Homes Pension Fund. International Standard on Auditing (ISA) 260 requires the external auditor to communicate its finding to those charged with governance of the Funds. Accordingly, Azets Audit Services 'Lothian Pension Funds 2022/23 Draft Annual Audit report to Members of the Pensions Committee and the Controller of Audit' is included at Appendix 1.

2.2 Azets Audit Services intends to provide an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund and intends also to confirm that there are no matters on which it is required to report by exception.

3. Background

ISA 260 annual report by External Auditor

3.1 Under statutory accounting guidance issued by the Scottish Government, Administering Authorities are required to issue a separate Annual Report covering the Local Government Pension Scheme (LGPS) funds that they are responsible for. These Annual Reports are subject to a separate external audit.

3.2 International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires the External Auditor to communicate its findings to those charged with governance of the Funds. This summarises any matters arising from the audit of the financial statements prior to the formal signing of the independent auditor's report.

3.3 As part of the standard, the External Auditor is required to provide a view of the following:

- any significant qualitative aspects within the Funds' accounting practice;
- any significant difficulties encountered during the audit;
- any material weakness in the design, implementation or operating
- effectiveness of the system of internal control;
- Any significant matters arising from the audit discussed with management;
- Any representations that have been requested from management; and
- Any other matter that is significant.

4. Main Report

Azets Audit Services - Lothian Pension Fund and Scottish Homes Pension Fund 2022/23 Annual Audit Report to Members and the Controller of Audit

4.1 The report by the external auditor on the financial statements is included at Appendix 1 – 'Azets Audit Services - 2022/23 Annual Audit Report to the Members of the Pensions Committee and the Controller of Audit'. This will be presented to Committee by Nick Bennett, Partner, Azets Audit Services.

4.2 Key points within the Audit Report include confirmation that:

4.2.1 Work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Financial statements audit

1. An unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund (collectively referred to as the "Funds") will be given which will also confirm that there were no matters which we were required to report by exception.
2. no material adjustments have been required to the financial statements

Wider scope audit

1. LPF has effective arrangements for financial management and the use of resources
2. LPF has adequate arrangements in place to ensure ongoing sustainability.
3. Vision, Leadership and Governance arrangements at the Funds are appropriate.
4. The Funds have appropriate resources in place to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

4.3 In addition to members of the Pensions Committee and Pensions Audit Sub-Committee, Azets Audit Services will send the report to the Controller of Audit and has advised that it will therefore be published on Audit Scotland's website in due course.

Audited Annual Report 2023 for Lothian Pension Fund and Scottish Homes Pension Fund

Revisions from the Unaudited Annual Report 2023, as reported to Pensions Committee in June 2023

4.4 Some minor disclosure and presentational adjustments were identified during the audit. These have been reflected in the final set of financial statements.

4.5 With the completion of the work by Azets Audit Services, the Audited Annual Report 2023 for the Lothian Pension Fund and Scottish Homes Pension Fund has been finalised and is included at Appendix 2.

4.6 As part of the completion of the audit, the auditor seeks written assurances from the Service Director- Finance and Procurement, City of Edinburgh Council, on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix 5.

Audited Financial Statements for the year ended 31 March 2023; LPFE Limited and LPFI Limited

4.7 The consolidated financial statements (within the Annual Report 2023) combine those of the Fund (the parent entity) and its controlled entities (the investment staffing company, LPFE Limited, and the investment services company, LPFI Limited), as defined in International Accounting Standard (IAS) 27. The financial statements of both companies have been audited by Azets Audit Services and were approved by the respective Boards of Directors in June 2023. In the interests of governance transparency, these statements are shown in full at Appendices 3 and 4.

4.8 LPFE Limited is the employment vehicle for the Fund's staff. It provides staffing services to the Lothian Pension Fund (acting through its administering authority the City of Edinburgh Council) (LPF), LPFI Limited and to Falkirk Council. The company's financial objective is to make a modest trading surplus before adjustments required under International Financial Reporting Standards (IFRS). Such adjustments primarily relate to pension costs, as required by International Accounting Standard (IAS) 19, and the related deferred tax. For the year ended 31 March 2023, the underlying trading profit of the company was £118,254 (2021: £115,889). Turnover was £7,309,586 (2022: £5,853,139).

4.9 LPFI Limited provides Financial Conduct Authority (FCA) regulated investment services, both to LPF and other likeminded pension funds and/or institutional investors but does not employ any staff directly. Its financial objective is to make a modest trading surplus. For the year ended 31 March 2022, the underlying trading profit of the company was £32,622 (2022: £32,459). Turnover was £1,873,534 (2022: £1,515,239).

4.10 The Annual LPF Group Governance Update, as reported to Pensions Committee in June 2023, provided further details on the operations of the two companies.

5. Financial impact

5.1 There are no direct financial implications as a result of this report beyond those otherwise stated.

6. Stakeholder/Regulatory Impact

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

6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

Appendix 1 – Azets - Lothian Pension Fund 2022/23 Annual Audit Report to the Members of the Pensions Committee and the Controller of Audit;
Appendix 2 - Audited Annual Report 2023 for the Lothian Pension Fund;

Appendix 3 - LPFE Limited – Financial Statements (Audited) for the year ended 31 March 2023;

Appendix 4 – LPFI Limited – Financial Statements (Audited) for the year ended 31 March 2023;
Appendix 5 – Letter of representation (ISA 580) by Service Director- Finance and Procurement

Appendix 1

AZETS

Lothian Pension Fund

2022/23 Annual Audit Report to the Members of the Pensions Committee and the Controller of Audit

September 2023

Table of Contents

Key messages

This report concludes our audit of Lothian Pension Fund (LPF) and Scottish Homes Pension Fund ("the Funds") for the year ended 31 March 2023. This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	The annual accounts were considered and approved by the Pensions Committee on 27 September 2023. Our independent auditor's report is unqualified, subject to completion of pensions paid, cessation testing, group consolidation and contributions testing.
Key audit findings	The Funds had appropriate administrative processes in place to prepare the annual accounts and the supporting working papers. We have obtained adequate evidence in relation to the key audit risks identified in our audit plan. The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Audit adjustments	We have not identified any adjustments during the audit. We identified some disclosure and presentational adjustments during our audit, all of which have been reflected in the final set of financial statements.
Accounting systems and internal controls	We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Funds processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we include these in this report. We consider the control environment within the Funds to be satisfactory, although there is scope for improvement.

Wider scope audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**Auditor judgement** Effective and appropriate arrangements are in place Lothian Pension Fund has effective arrangements for financial management and the use of resources. The Funds reported a small net increase in the funds held. Lothian Pension Fund reported a net withdrawal position in dealings with members of £18.190 million. Scottish Homes reported a net withdrawal position of £7.013 million. Annual operating plan updates are provided to each Pensions Committee meeting clearly explaining changes in group performance.
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	**Auditor judgement** There are areas for improvement LPF has adequate arrangements in place to ensure ongoing financial sustainability. The focus of the Funds' investment strategy is to ensure a sufficient return over the long term to meet the funding objectives outlined by the Funding Strategy Statement. LPF has delivered low absolute performance in 2022/23 of 0.3% annual return on investments, which is higher than the benchmark returns of -14.6% while maintaining lower risk. The five-year and ten-year annualised investment returns for the first time in years outperformed the benchmark, due to consistent returns on equities and real assets relative to the benchmark. We would encourage Lothian Pension Fund to consider the medium and longer term implications of the expected triennial valuation results.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** There are areas for improvement Project Forth, a proposed merger between Lothian and Falkirk Pension Funds was approved by Lothian Pension Fund's Pensions Committee in September 2021, subject to the approval of City of Edinburgh Council and Falkirk Council as administering authorities. However, we noted further delays in progressing with the project and in June 2023 LPF decided to re-consider the merger proposal at their next meeting in September 2023. The cost of Project Forth to date, excluding officers time, amounts to £0.619 million. We recommend that after three years of pursuing the project, the Fund makes a clear decision regarding its strategic direction and builds this into future business plans and strategy documents. Governance arrangements at the Funds in relation to corporate governance and the information provided to the Board and Committees as well as the risk management are appropriate. We would recommend all members of the Board and Pensions Committee attend the minimum number of hours as required by the Funds' training policy.
Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** Effective and appropriate arrangements are in place The Funds' investment performance is subject to regular review by the Pensions Committee. The Funds have appropriate arrangements in place to secure value for money through appropriate monitoring of performance of investments and the administration of the Funds. Performance remains strong with all ten performance measures met.

Definition

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.

- There is a fundamental absence or failure of arrangements
- There is no evidence to support necessary improvement
- Substantial unmitigated risks affect achievement of corporate objectives.

- Arrangements are inadequate or ineffective
- Pace and depth of improvement is slow
- Significant unmitigated risks affect achievement of corporate objectives

- No major weaknesses in arrangements but scope for improvement exists
- Pace and depth of improvement are adequate
- Risks exist to achievement of operational objectives

- Effective and appropriate arrangements are in place
- Pace and depth of improvement are effective
- Risks to achievement of objectives are managed

Introduction

The annual audit comprises the audit of the financial statements and the wider-scope audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Pensions Committee at the outset of our audit. We have not made any significant subsequent changes to the risks outlined in that plan.

Responsibilities

The Funds are responsible for preparing its annual accounts, including financial statements which show a true and fair view, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council’s (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual report and accounts audit

The Funds' annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing. Our findings / conclusions to inform our opinion are set out in this section of our annual report.	The draft financial statements. management commentary, annual governance statement, governance compliance statement and remuneration report were considered by the Pensions Committee and approved on 21 June 2023. They were reconsidered and approved post audit on 27 September 2023. We have issued unqualified audit opinions. We have not identified any misstatements during the audit. We received the draft annual accounts and supporting papers in line with our audit timetable. The accounts and working papers were prepared to a high standard. Further information and revisions were provided promptly where required. Our thanks go to the Finance team for their assistance with our work.

Opinion	Basis for opinion	Conclusions
Going concern basis of accounting	In the public sector, when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body. We assess whether there are plans to discontinue or privatise the Funds' functions. Our wider scope audit work considers the financial sustainability of the Funds.	Last year we concluded that a proposed LPF and Falkirk Pension Fund merger, Project Forth, would represent a transfer of services under combinations of public sector bodies, and hence does not negate the presumption of going concern. However, in June 2023 on the advice of the administering authority LPF took a decision to re-consider the merger decision, and therefore there is no further consideration in relation to going concern necessary until a decision on future strategy is made. Our audit opinion is unqualified in this respect.
Opinions prescribed by the Accounts Commission: • Management Commentary • Annual Governance Statement • Governance Compliance Statement	We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with relevant statutory guidance. • the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance

Opinion	Basis for opinion	Conclusions
	relevant legislation and regulations.	in Local Government: Framework. • the information given in the Governance Compliance Statement is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited part of the remuneration report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Pensions Committee in March 2023. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Funds. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the annual accounts is not modified with respect to any of the risks described below.

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	**Management override of controls**
Significant risk description	Management of any entity is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits.

Risk area	Management override of controls
	This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions. **Audit procedures** • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and appropriate processing in line with the Funds' journals policy. • Gaining an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	Our work in this area is being finalised. We did not identify any indication of management override of controls from our audit work. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.

AZETS

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	**Fraud in revenue recognition**
Significant risk description	Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed inherent risk on every audit unless it can be rebutted. The presumption is that the Funds could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, in respect of contributions received from member bodies we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition is present in all other income streams. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income. **Audit procedures** • Evaluating the significant income streams and reviewing the controls in place over accounting for revenue. • Considering key areas of income and obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been consistently applied during the year. • Performing substantive test on all material revenue streams.
Key observations	Based on audit work performed, we gained reasonable assurance on the completeness and occurrence of all other material income streams and we are satisfied that income is fairly stated in the financial statements. However,

Key risk area	Fraud in revenue recognition
	confirmations from some auditors of the employer members of the LPF are still outstanding.

Key risk area	Fraud in non-pay expenditure
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements.
How the scope of our audit responded to the significant risk	Based on our fieldwork assessment, we do not deem this risk to be present for expenditure due to the materially low levels of expenditure incurred. This was not considered to be a significant risk during our fieldwork.
Key observations	Based on audit work performed, we gained reasonable assurance on the completeness and occurrence of expenditure and we are satisfied that expenditure is fairly stated in the financial statements.

Key risk area	**Investment valuations (significant accounting estimate)**
Significant risk description	The Funds held investments of £9.650 billion as at 31 March 2023, of which 33% (£3.175 billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets. Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error.
How the scope of our audit responded to the significant risk	**Key judgements** There is the potential for management to use their judgement to influence the values within the financial statements. **Audit procedures** • Evaluate the Funds' investment strategy and review the controls in place over accounting for investments. • Consider the Funds' material investments and obtain evidence that investments have been appropriately valued at 31 March 2023 including challenging fair value classification. • Review investment transactions and obtain evidence that investment transactions are recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review management experts including the custodian and external investment managers. This includes reviewing auditor reports on the internal controls at the custodian and at each key investment manager.
Key observations	We gained reasonable assurance over the valuation of investments at year end and are satisfied that investments and investment transactions are fairly stated in the financial statements.

Key risk area	Investment property valuations (significant accounting estimate)
Significant risk description	LPF hold a portfolio of investment properties. The management of the properties is undertaken by JLL, along with the Fund accounting for the portfolio. Investment properties are valued annually at fair value, in line with the Code. There is a significant degree of subjectivity in the measurement and valuation of investment properties. This subjectivity and the material nature of the Funds' investment property portfolio represents an increased risk of misstatement in the annual accounts.
How the scope of our audit responded to the significant risk	**Key judgements** There is the potential for management to use their judgement to influence the investment property values within the financial statements. **Audit procedures** • Ensuring that investment properties are recorded in the annual accounts in accordance with the Code and the Funds' accounting policies, and have been accounted for appropriately. We will review investment property valuations. • Considering the competence, capability and objectiveness of the valuer in line with ISA (UK) 500 Audit Evidence. We will review the valuation report and consider the assumptions used by the valuer against external sources of evidence. • Considering the scope of the valuer's work and the information provided to the valuer for completeness.
Key observations	LPF's investment properties were valued at £365.7 million as at 31 March 2023. The valuation undertaken by CBRE did not include any qualification. CBRE considers that sufficient market evidence exists upon which to base opinions of value. Based on our audit procedures and evaluation of expert's work we concur with this judgement. We gained reasonable assurance over the valuation of investment properties at the year end and are satisfied that

Key risk area	Investment property valuations (significant accounting estimate)
	investment properties are fairly stated in the financial statements.

Key risk area	Valuation of defined benefit pension obligations (significant accounting estimate)
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 26 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the Funds and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.
How the scope of our audit responded to the significant risk	**Key judgements** A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability. **Audit procedures** • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to their actuarial experts and the scope of their work. • Evaluating the competence, capabilities and objectivity of management's actuarial expert. • Considering the basis on which the valuation was carried out and challenging the key assumptions applied. • Evaluating the information provided to the actuary for the purposes of their calculation of the IAS 26 estimate to ensure it was complete and consistent with our understanding.

Key risk area	**Investment property valuations (significant accounting estimate)**
Key observations	We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness. We have considered the competence, capability and objectivity of the actuary in line with the requirements of *ISA (UK) 500 Audit Evidence*. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

Estimates and judgements

We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to pension assumptions, investments valuation, investment properties valuation, provisions for legal obligations, doubtful debts and expected credit losses, investment fees and accruals. Other than investments valuation, investment property valuation and pension assumptions, we have not determined the accounting estimates to be significant. We revisited our assessment during the fieldwork and completion stages of our audit and concluded that our assessment remained appropriate.

Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements	
Investments valuation	**Auditor judgement: Balanced**
Monthly valuation exercises of the investment portfolio exercises are carried out to confirm that the valuation provided by the Custodian, Northern Trust, is appropriate and in line with management's expectation. As at 31 March 2023, the Funds' internal valuation exercise resulted in a valuation of £9.646 billion, a valuation £5.3 million (0.06%) higher than the Custodian's valuation	

which is included in the accounts. The difference relates to timing of when information was received and the availability of information on certain foreign holdings. The Funds confirm that the valuation included in the accounts is materially in line with the internal exercise and that the Custodian's valuation better reflects information known at 31 March 2023.

We considered investment valuations against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 March 2023.

Asset valuations at the Funds are based on third party information, where available, including publicly available market information, fund managers and custodian valuations. We evaluated the competence, objectivity and capability of management's expert in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate. We considered key assumptions against other sources of evidence.

Our findings and conclusions are included in the significant risk table above.

Investment property valuation	**Auditor judgement: Balanced**

Management consider the valuation of investment property on an annual basis. The valuation is carried out by the chartered valuation firm CBRE. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 March 2023.

Pensions Assumptions	**Auditor judgement: Balanced**

We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness.

We have considered the competence, capability and objectivity of the actuary in line with the requirements of *ISA (UK) 500 Audit Evidence*. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile the Funds and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Funds and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Group and the Funds materiality

Our initial assessment of materiality for LPF Group was £143 million. On receipt of the 2022/23 unaudited annual accounts, we reassessed materiality and updated it to £145 million, but kept the single entity unchanged. We consider that our updated assessment has remained appropriate throughout our audit.

Our initial assessment of materiality for Scottish Homes Pension Fund was £2.3 million. On receipt of the 2022/23 unaudited annual accounts, we reassessed materiality and updated it to £1.9 million. We consider that our updated assessment has remained appropriate throughout our audit.

	Group (£m)	Lothian Pension Fund (£m)	Scottish Homes Pension Fund (£m)
Overall materiality for the financial statements	145	143	1.9
Performance materiality	108.7	107.3	1.4
Trivial threshold	0.250	0.250	0.095

Materiality	Our assessment is based on approximately 1.5% of the group and Funds' net investment assets as disclosed in the unaudited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing the financial performance of the Funds' and the group. In performing our audit we apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.
Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Special materiality for dealings with members

Our initial assessment of materiality for dealing with members for LPF was £13.1 million. On receipt of the 2022/23 unaudited annual accounts, we reassessed materiality and updated it to £14.2 million. The group materiality has been updated to £14.3 million accordingly. We consider that our updated assessment has remained appropriate throughout our audit.

	Group (£m)	Lothian Pension Fund (£m)	Scottish Homes Pension Fund (£m)
Dealings with members materiality	14.3	14.2	0.34
Performance materiality	10.7	10.6	0.25
Trivial threshold	0.250	0.250	0.017

Materiality	We apply lower materiality for dealings with members, based on the fact these transactions are significant to the Funds' activities and it would not be appropriate to use the assets based materiality to them. Our assessment is based on approximately 5% of the group and Funds' 2022/23 gross expenditure as disclosed in the unaudited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Funds' and its group.
Performance materiality	Using our professional judgement, we have calculated performance materiality at approximately 75% of overall materiality.

Group audit

Lothian Pension Fund prepares its financial statements on a group basis. The group consists of Lothian Pension Fund and two special purpose vehicles, LPFE Ltd and LPFI Ltd. As group auditors under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and regarding the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The following table sets out the components within the group.

Component	Significant	Level of response required
Lothian Pension Fund	Yes	Comprehensive
LFPI Ltd	No	Analytical
LPFE Ltd	No	Analytical

Comprehensive – the component is of such significance to the group as a whole that an audit of the component's financial statements is required for group reporting purposes.

Analytical - the component is not significant to the group and audit risks can be addressed sufficiently by applying analytical procedures at the group level.

LPFE Ltd and LPFI Ltd are fully consolidated. We did not consider either to be of individual financial significance to the group or, due to the specific nature or circumstances, include a significant risk of material misstatement to the group financial statements.

We are finalising our review of the consolidation entries made within the group accounts, to confirm those entries back to the financial statements of the group bodies. We do not expect any material adjustments arising from this work, as the group components are not material.

Azets is also the appointed auditor to LPFI Ltd and LPFE Ltd. During our audit we liaised with the audit teams to confirm that their programme of work is adequate for our purposes.

We revisited our assessment, following receipt of the unaudited accounts and our assessment remained the same.

We have nothing to report in respect of the following matters:

- No significant deficiencies in the system of internal control or instances of fraud were identified by the component auditor; and
- There were no limitations on the group audit.

Audit differences

We are pleased to report that there were no material adjustments to the financial statements or unadjusted audit differences.

We also identified minor disclosure and presentational adjustments during our audit which have been reflected in the final set of financial statements.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Pensions Committee. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

We did not identify any significant control weaknesses during our audit.

Follow up of prior year recommendations

We followed up on progress in implementing actions raised by the audit in the prior year. Full details of our findings are included in Appendix 3.

Other communications

Accounting policies, presentation and disclosures

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Funds.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately. Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Pensions Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting the Funds. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

Written representations

We will present written representations from management, and these will be approved at the same time as the financial statements were approved by the Pensions Committee, signed by the chief finance officer and to be returned to us before we complete our audit and issued our auditor's report.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received, apart from fund managers investment valuation reports.

Wider Scope

Financial management

Financial performance

The Funds have developed an annual Operating Plan which sets out the strategic aims of the Funds. A two-year budget to 2023/24 supports the delivery of the Plan which considers the Group as a whole.

Operating Plan updates are provided to each Pensions Committee meeting. The updates note progress of the Funds against the budget along with performance indicators and cashflow monitoring.

While the budget splits out the group into constituent components, budget reporting considers the Group as a whole. Due to the structure of the group, movements in year can affect performance of all group entities. The changes in financial performance for the group are supported by clear explanations.

Performance of the individual Funds can be scrutinised by the cashflow monitoring update provided in each Operating Plan update. This details the Funds' dealing with members for the year to date and the projected year end position on a cash basis.

While the information is presented such that it can be compared with the annual accounts, no information is provided on how performance to date compares with expectation, or prior year.

Lothian Pension Fund reported a net withdrawals position in dealings with members in line with forecast.

In line with forecast, Scottish Homes Pension Fund reported a net withdrawals position in dealings with members.

The small return on the Lothian Pension Fund and decrease in value of investments in the Scottish Homes Pension Fund were reflected in the net assets position for both. Consequently, LPF Fund's net assets have increased slightly while SHPF's decreased by 18% due to gilt market decreases.

The present value of the retirement benefit obligations are presented as a note to the accounts. A significant increase in the discount rate and minimum return on assets in the year have resulted in a lower obligation. This is despite a significant increase in pensions in April 2023 of 10.1% also taken into account by the actuary. This movement in the net asset position and present value of retirement obligations is shown in Exhibit 1.

Exhibit 1 – The Funds' Financial Position

	Net Assets	Present Value of Retirement Benefits
Lothian Pension Fund		
2022/23 (£million)	9,695	6,971
2021/22 (£million)	9,607	10,049
Movement (%)	1%	-31%
Scottish Homes Pension Fund		
2022/23 (£million)	126	95
2021/22 (£million)	154	116
Movement (%)	-18%	-18%

Source: Lothian Pension Funds Annual Report and Accounts

Withdrawal rates compare Funds income (contributions, transfers in) to its payments (pension related and transfers out). LPF recorded a higher withdrawal rates when compared to the forecast and to previous year. The higher 2022/23 withdrawal position resulted from a combination of lower income, higher pension payments and higher transfers out from the scheme. Scottish Homes Pension Funds withdrawal rate was below expected forecast. SHPF is a closed scheme therefore there is no income from contributions expected.

Exhibit 2 – Forecast versus Actual Net Withdrawals from the Funds

	2022/23 Forecast (£'000)	2022/23 Actual (£'000)	2021/22 Actual (£'000)
Lothian Pension Fund	(16,330)	(18,190)	(5,771)
Scottish Homes Pension Fund	(7,350)	(7,013)	(6,387)

Source: Lothian Pension Funds Annual Report and Accounts

Systems of internal control

We have evaluated the Funds' key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

As a part of this year's audit, and in accordance with the revised requirements of the International Standard on Auditing 315, we have assessed the control environment of General IT controls in relation to the pension payments, ledger and payroll systems and the overall environment.

No significant issues were identified from our audit work. We consider the system of control in place at the Funds to be satisfactory.

Prevention and detection of fraud and irregularity

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity.

Lothian Pension Fund was not required to participate in the National Fraud Initiative but has done so voluntarily. The Fund has completed work to provide data to the scheme.

The most recent NFI exercise commenced in 2022. LPF uploaded the data, investigated the matches and returned the results to its administering authority, The City of Edinburgh Council. There are no significant findings to note so far.

Overall, the LPF arrangements with respect to NFI are satisfactory.

Standards of Conduct

In our opinion the Funds' arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and the scheme of delegation and for complying with national and local codes of conduct.

Internal audit

An effective internal audit service is an important element of the Funds' governance arrangements. The City of Edinburgh Council provide the Funds' internal audit service. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Funds' audit resource.

Internal Audit presented a 'reasonable assurance', amber opinion to the Pensions Committee for the year to 31 March 2023. An amber opinion was given as Internal Audit reflected that LPF has generally sounds system of governance, risk management and control in place, with some issues of non-compliance and scope for improvement identified. The opinion is different from a 'Limited assurance' opinion from the previous year, but Internal Audit highlighted that direct comparison between the years might not be appropriate due to the different type of work being performed and different risk profiles in a year.

LPF has considered the assurances provided by Internal Audit as part of the Annual Governance Statement. The opinion is considered within the context of the wider assurance framework including assurances provided by the Section 95 Officer for the LPF Group and the Head of Finance at the City of Edinburgh Council.

In 2022/23 we did not place formal reliance on the work of internal audit; however, we have considered their findings in respect of our wider scope responsibilities and we are grateful to the internal audit team for their assistance during the course of our work.

Financial sustainability

Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Extract from External Audit Plan - Financial sustainability
The Funds held investments of £9.528 billion as at 31 March 2022. Investment strategies are in place for each of the funds which outline the Funds approach to ensure that all members and their dependents receive their benefits when they become payable. The investment strategy was updated and approved by the Pensions Committee in June 2021. The primary objective of the Funds is to ensure that there are sufficient funds available to meet all pension and lump sum liabilities as they fall due for payment. The funding objectives for each Fund are documented in the Committee's Funding Strategy Statement, which is reviewed at least triennially. The funding objectives, together with the rates of return being targeted and levels of risk to be tolerated, are central to each Fund's investment strategy and govern the allocation across various asset classes. The investment objectives of the Funds are to achieve a return on Fund assets which is sufficient over the long term to meet the funding objectives as outlined in the Funding Strategy Statement. Investment returns are generated by a combination of income (from dividends, interest and rents) and gains or losses on capital. While it is noted that the Funds investment strategy is designed in such a way as to withstand market volatility in the long term, we have noted that COVID-19, inflation levels and other worldwide political events had a significant impact on the market in the recent years. While the last two years saw a return to improved performance, a significant risk remains particularly in relation to impact of increased inflation, expected government monetary policies and uncertainties in relation to geopolitical situation. There is a risk that the value of investments is significantly impacted by events within the wider environment.

Our detailed findings on the Funds financial sustainability arrangements are set out below.

Funding Strategy

The Funds' objectives, as set out in the Funding Strategy Statement, are to generate sufficient long term returns to pay promised pensions. This must be balanced with making the scheme affordable to employers now and in the future.

Liabilities will be met by asset returns, resulting from the Investment Strategy, and contributions, resulting from the Funding Strategy. A core funding objective is to maximise asset returns, within reasonable and considered risk parameters, in order to minimise the cost to employers.

Funding levels can be volatile, due to intrinsic uncertainties over asset returns particularly when considered only in the short term. Minimising short term changes in contribution rates is an objective of the Funds'. Funding and investment strategies must be set with appropriate tolerances to adapt to market volatility.

Market Volatility

The previous year's market volatility created by recovery from COVID, inflation and the war in Ukraine continue into this year. The key factors impacting the markets were high inflation rates and the impact on government gilt prices. Central banks reacted to inflation with tighter monetary policies and interest rates increases.

When compared to the previous year, 2022/23 overall returns were lower. The UK Equities reported a -1.4% (2022: +14.5%) return for the 12 months, however this is in sterling, and when US dollar is used the decline of returns in equities was equal to -7.4%. Government bond prices fell during the year because of higher inflation and increasing interest rates. Returns on investments properties also weakened due to the impact of the increasing cost of borrowing.

Actuarial funding levels

The funding of Lothian Pension Fund was 106% at the last triennial valuation at the March 2020. The assets levels increased during the 2023/24 financial year, while liabilities decreased due to increasing discount rates. The results of the next triennial valuation at 31 March 2023 will be available in 2024. The draft results indicate a significantly increased level of funding, and well above 100%. This could mean potential changes to the employers' membership levels in the scheme, if for example, admitted employers elect to leave the Fund to take advantage of high funding levels.

We would encourage Lothian Pension Fund to consider the medium and longer term implications of the expected triennial valuation results, including potential exits from the Fund by smaller bodies, and the impact this might have on the Funds liability and net withdrawals.

Recommendation 1

The funding level of Scottish Homes Pension Fund at the 2020 Triennial Valuation was 117.7% (2017: 104.7%), reaching full funding faster than anticipated. The Scottish Government, as Guarantor, was consulted on future funding options. The decision reached was to maintain the current approach, which minimises investment risk.

While Scottish Homes Pension Fund holds mainly UK Gilts in line with the Fund's funding strategy, both Fund's hold significant cash reserves. For Scottish Homes Pension Fund, this was equivalent to two years' pension payments. This provides an important buffer against short term market volatility affecting meeting pension liabilities as they fall due.

Investment Strategy

Lothian Pension Fund has described their investment position as 'defensive'. The approach is generally expected to deliver outperformance when equity market returns are poor.

Lothian Pension Fund revised the investment strategy in June 2021. The improved position reported at the triennial valuation provided scope to reduce investment risk while generating sufficient returns to remain fully funded. The Fund's allocation of assets held in equities has decreased to 58.5% (2020: 60%).

Following its last triennial valuation the Fund set out a revised investment strategy in June 2021. The investment strategy has a significant impact on the investment performance, ultimately impacting the funding level and contribution rates. Hymans Robertson, as scheme actuary, undertook asset liability modelling to assess the impact of different investment strategies.

The modelling highlights the sensitivity of the funding level on gilt yields. While the investment risk is largely driven by equities, modelling illustrates that the Fund must invest in assets with returns above those of UK gilts to achieve its objectives. A revised strategy was therefore proposed which reduces the funds exposure to equities from a strategic allocation of 65% of assets to 60% (actual: 58.5%), with corresponding increases in real assets and gilts.

Investment Performance

Lothian Pension Fund aims to achieve a return in line with its strategic benchmark allocation, over the long term, with a lower-than-benchmark level of risk.

Annual performance to March 2023 was weaker than in previous year, with overall annual returns of 0.3% (2022: 10.8%). However, the performance was above the benchmark of -14.6% while maintaining investment in lower risk equities. Lothian Pension Fund's performance against benchmark and prior year is given at Exhibit 3.

Exhibit 3: Performance of Lothian Pension Fund against benchmark and prior year

Source: Unaudited Annual Report and Accounts

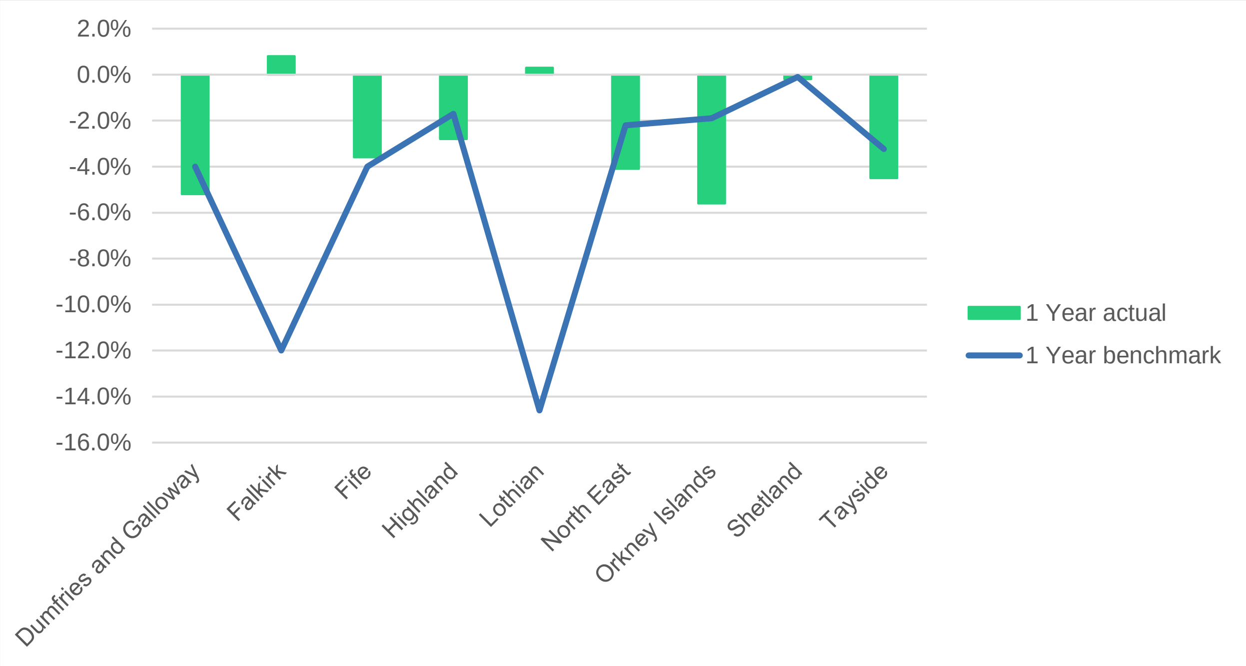
The impact of uncertain market conditions can be seen on the returns. Despite absolute performance being significantly lower than in 2021/22, the Fund's defensive market positioning helped the Fund outperform the annual benchmark.

There have been no changes to the overall Fund strategy during 2022/23. The main movements included the real assets allocation increase for new investments, a small decrease to non-gilt debt and the overall net reduction in cash, with no significant changes to the equities allocation.

Annual returns comparison

The Fund reported the second highest (2022: third highest) annual return and was one of only three LGPS to exceed annual benchmark returns. See Exhibit 4 for Lothian Pension Fund's annual performance against other Scottish LGPS Schemes.

Exhibit 4: Annual return across LGPS Scotland Funds against benchmark



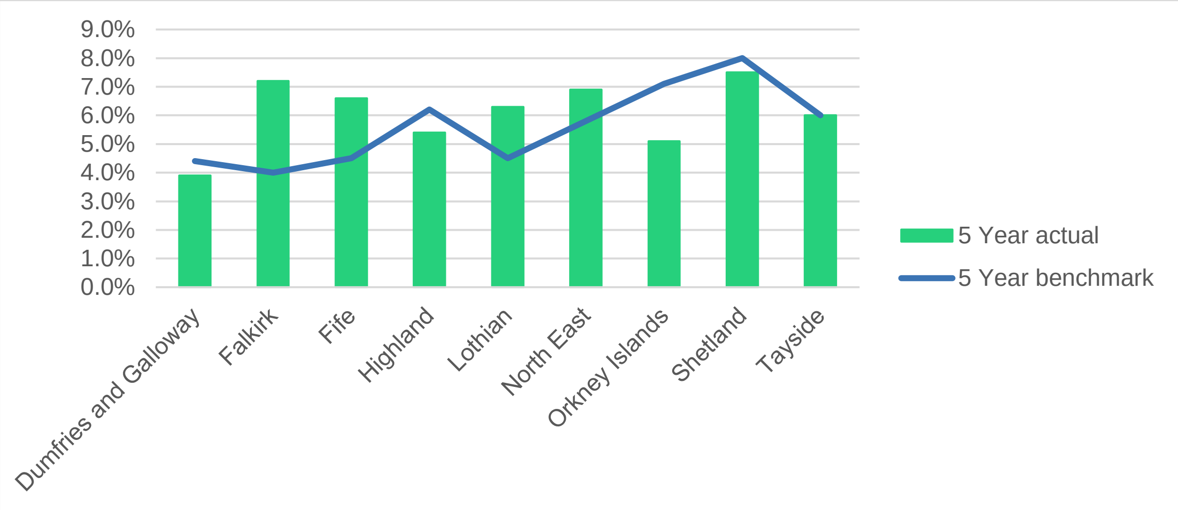
Source: Unaudited Annual Report and Accounts

5 year returns comparison

We have observed across our appointment that the gap between the return and 5 year benchmark continues to narrow and in 2022/23 LPF outperformed the benchmark. We do note that previous year's LPF return performance was positioned in the middle of the Scottish LGPS', while the benchmark was 2nd highest when compared to other pension funds. However, we understand that the benchmarks are based on many factors individual to investment types, pension fund and fund managers.

Comparison of Lothian Pension Fund's performance against other Scottish LGPS Schemes is given in Exhibit 5.

Exhibit 5: Annualised 5 year returns across LGPS Scotland Funds against benchmark



Source: Unaudited Annual Report and Accounts

Other factors

Lothian Pension Fund notes that it is absolute returns which allow the Fund to meet pension liabilities as they fall due. However, maximising asset returns within the risk tolerances reduces the cost to the members in the long term.

High levels of the UK inflation and continuing war in Ukraine have had impact on the investment returns. Pension benefits were also increased in April 2023 by 10.1% to reflect inflation impact, but the adverse impact of that increase on the funding level is not expected to be significant enough to outweigh increases in interest rates which in turn decrease the Funds' liabilities value.

The Fund divested any Russian directly linked investments in the previous years, leaving only trivial holdings in such investments. However, we noted that nearly £17 million is included in an investment kept in another fund, Macquarie Infrastructure and Real Assets (Europe) Limited, which invests in a company (EPIF) owning almost half of Eustream which in turn gets the majority of its revenues from payments from Gazprom. According to LPF:

- This investment is part of an Infrastructure portfolio, which is relatively illiquid and invested in 2016. According to LPF their interactions with the manager confirm that the company LPF invested in (and owning 49% of Eustream) has committed to achieve net zero emissions by 2050, in line with the Paris Accord, and more broadly, that the manager will play an important role in the energy transition.
- Neither EPIF nor Eustream have seen any of their clients become subject to any relevant sanctions and ultimately gas transit via the Eustream system and related services have been carved out from international sanctions. Both EPIF and Eustream continue to monitor international sanctions to ensure full compliance.

Vision, leadership and governance

Our detailed findings on the Funds' arrangements are set out below.

Vision

Lothian Pension Fund's Strategy document defines its vision 'to deliver outstanding pension and investment services for the benefit of members and employers'. The strategy document contains further information on purpose of the Fund and its core values. LPF is striving to be the best LGPS in Scotland, if not the UK, in terms of meeting the needs of members and employers, in using their influence as a leading responsible investor, and offering a superior employment proposition to their employees. The strategy goes into detail on the key goals of the Fund and of its more detailed objectives. These are accompanied by financial metrics, headcount, and the other essential components of a comprehensive business plan.

Project Forth

In September 2021, Lothian Pension Fund agreed in principle to merge Lothian Pension Fund with Falkirk Pension Fund, subject to further work including approvals by the City of Edinburgh Council and Falkirk Funds, as administering authorities. The intention to merge was publicly announced on 24th May 2022.

The aim and business case behind Project Forth is that a merger will result in substantial cost savings, achieve economies of scale and provide a future proofed best in class governance model fit for the increasing legal and regulatory landscape of the LGPS.

The proposed structure agreed by the Pensions Committee was a joint venture between the City of Edinburgh Council and Falkirk Funds, as administering authorities. This would be a company limited by guarantee holding nominal membership pro-rated to contributing assets.

Under the original timeline, the administering authorities were due to consider the proposal in February 2022 and then in December 2022, due to further due diligence checks required. The two Funds intended to align the timing of when the proposal is considered for approval. We noted further delays on progressing with the project and in June 2023 LPF decided to re-consider the merger proposal during the next meeting of the Pensions Committee in September 2023.

In the last three years the Funds have been focusing its strategic direction towards Project Forth and merger with the Falkirk Pension Fund. As this has now been subject to further considerations, we recommend that after three years of pursuing the project the Fund makes a clear decision as to its strategic direction. We would also expect this to be formally reflected in the Fund strategy and operational plans where appropriate.

Recommendation 2

Governance structure

The Pensions Committee has been delegated responsibility for governance of the Funds by the administering authority, the City of Edinburgh Council. The Pensions Committee is supported by an Audit Sub-Committee.

The Pensions Committee's responsibilities, as set out in the City of Edinburgh Council's Scheme of Delegation, include the administration and management of the Funds including setting the investment strategy.

In line with the requirements of the Public Service Pension Act 2013 the Pensions Committee is supported by a Pensions Board.

The Pensions Board is responsible for establishing arrangements that ensure proper conduct of the affairs of the Board and meet quarterly on a concurrent basis with the Pensions Committee.

The Funds complied with best practice and appointed an independent professional observer to the Board and Committee.

In line with legislation, if more than half of the members of the Pension Board disagree with a decision of the Pensions Committee then they can request in writing that the Committee review that decision. There have been no requests to review decisions in 2022/23.

Due to the specialised nature of the Funds, it is vital that members have the appropriate knowledge and understanding to provide appropriate challenge and operate effectively. Training is therefore seen as a fundamental requirement for all Committee and Board members.

Our review found that all, but one, current Pensions Committee and Board members met the requirement to have a minimum of 21 hours training. While the LPF Code of Conduct states that these requirements have to be met 'from time to time' we would encourage all the members to fulfil this obligation to allow an effective oversight of the Funds activities.

Recommendation 3

Joint Investment Strategy Panel

The Pensions Committee has delegated responsibility for investment strategy to the Executive Director of Resource who takes advice from a Joint Investment Strategy Panel made up of:

- the Chief Investment Officer, LPFI Ltd;

- a second senior investment officer of LPFI Ltd; and
- two external independent investment advisers.

The Joint Investment Strategy Panel covers joint working arrangement with Falkirk Pension Fund and Fife Pension Fund.

The Joint Investment Strategy Panel meets quarterly and considers the appropriate investment management structure required to implement the Funds' investment strategy. In addition, it is responsible for:

- making recommendations about investment strategy; and
- directing and monitoring strategy implementation and risk.

The primary focus of the panel during 2022/23 has been the implementation and monitoring of existing strategies for Lothian Pension Fund and Scottish Homes Pension Fund, as well as the implementation of the strategies of the collaborative partner funds.

Special areas considered by the panel in 2022/23 include:

- annual review of investment strategy;
- responsible investment principles; and
- the implications of a merger of the Lothian and Falkirk funds
- consideration of wider economic and political issues.

Lothian Pension Fund continues to operate four investment strategies recognising the different membership profiles and requirements of the admitted and scheduled employers.

Scottish Homes Pension Fund achieved full funding at the 2017 and 2020 actuarial valuations and therefore the strategy is low risk and designed to protect from short term market changes.

Cybersecurity

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. We have considered risks related to cyber security at the Fund as part of our integrated audit as part of our understanding of the Fund's use of IT.

The revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. Our specialist IT auditors team have made an initial assessment of the IT environment and its key systems impacting preparation of the financial statements. Some of these systems are provided by the administering authority, which means reliance on a third party controls in place. We have however identified that these other IT systems possess ISO 27001 certification giving further assurance over information security arrangements. Conformity with this ISO means that Funds have put in place a system to manage risks related to the security of data owned or handled by the Funds, and that this system respects all the best practices and principles of the standard.

The client side IT management team are currently in the process of developing a suite of IT policies to support the Funds going forward.

We have noted that the Funds have not been subject to a successful cyberattack and we have noted that the key IT systems used and impacting on the financial statements possess relevant ISO certificates and appropriate arrangements are in place.

Use of resources to improve outcomes

Our detailed findings on the Funds arrangements are set out below.

Investment Manager Operations

Lothian Pension Fund operates two special purpose vehicles: LPFE Ltd and LPFI Ltd. Both companies are wholly owned and controlled by the Funds.

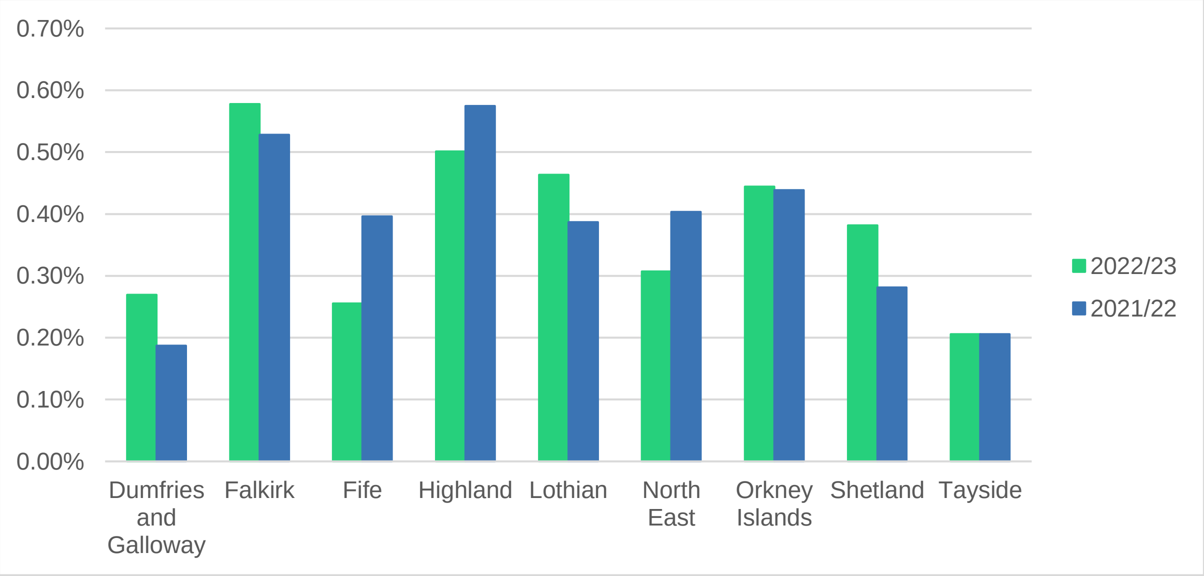
The special purpose vehicles were established to support the investment programme of the in-house investment team by providing organisational arrangements consistent with the capability, systems and controls of authorised investment companies.

In 2022/23, the proportion of funds managed internally remained at c.93%, with the last significant movement in 2019/20 when the transfer of the property portfolio management to an in-house team was undertaken. External investment managers are primarily used in the management of overseas equities and corporate bonds.

Lothian Pension Fund reported management expenses of £48.1 million in 2022/23, an increase of 20% on the prior year. Management expenses are split into three main categories: administrative costs; investment manager expenses and oversight and governance costs. Investment management expenses account for 86% of total management expenses.

In year, Lothian Pension Fund's investment manager expenses (excluding indirect expenses) increased marginally as a proportion of net assets. This is broadly in line with trends across the Local Government Pension Funds as shown in Exhibit 6.

Exhibit 6 – Management expenses as a proportion of net assets



Source: Unaudited Annual Report and Accounts

Investment manager expenses can vary due to a number of factors including actual returns on investments and the nature of the investment assets held.

The Funds include detailed analysis over investment expenses in the 2022/23 Annual Report. Disclosures on investment management expenses exceed the requirements of the CIPFA guidance on cost transparency as LPF consider that the CIPFA methodology would result in under-reporting of indirect management expenses.

The Funds undertake annual benchmarking exercises using externally provided data, covering 30 LGPS funds and a wider global universe of 299 funds. Analysis of investment costs is carried out by an independent provider, CEM Benchmarking Inc.

The benchmarking exercise reported in March 2023 covers investment performance in 2021/22. For this year, Lothian Pension Fund reported an actual investment cost of 0.29% of average assets which was below the benchmark of 0.50%.

The Funds credit the strong performance against benchmark to two factors. The first is the high percentage of assets managed internally which allows the Funds to control costs effectively. Additionally, the Funds have accessed private market investments at a lower fee than the benchmark group.

In relation to the pension administration benchmarking exercise undertaken by CEM, the Funds were categorised as ‘low cost; high service standard’. The Funds’ cost per member was £26.30 compared with a benchmark of £39.94. This was supported by an improved service score of 74 out of 100 driven by the Funds’ noted speed at paying lump sums and strong social media presence.

Monitoring investment performance

There is an annual review of investment performance published in June for each of the Funds. The report provides a detailed analysis of each of the Fund’s investment performance against its investment strategy. We concluded that the Pensions Committee and Board Members are engaged in monitoring the performance of investments.

In addition to monitoring at a Committee level the Funds’ performance is calculated by an external provider on a monthly basis. The external provider compiles information covering monthly, quarterly, and 1, 3, 5, 10 yearly performance measures. This information is presented to the Joint Investment Strategy Panel to allow for scrutiny of the investment performance of the Funds.

Administration performance

The Funds have developed an annual Operating Plan which sets out the strategic aims of the Funds. The aims are supported by performance indicators which are reported to each Pensions Committee meeting as part of the Operating Plan Update.

The annual results for 2022/23 are presented in the Funds' Management Commentary. Performance remains strong in all ten performance measures met.

Climate change

Principal 11 of the Statement of Investment Principles notes the Funds' commitment to responsible investment, while stating that divestment is inconsistent with the Funds' fiduciary duties to members and employers. This covers the Funds' approach to climate change, amongst other significant areas.

The Investment Strategy review provided an opportunity for the impact of climate change on the Funds to be assessed. Uncertainty is high in climate modelling, but the modelling suggested that, on balance, there is a risk of deterioration of the financial position due to climate change. Reduction in exposures to equities was suggested as a prudent measure to mitigate the most pessimistic climate scenarios, which is being implemented.

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 percent reduction in greenhouse gas emissions by 2030.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. All public bodies need to reduce their direct and indirect emissions and should have plans to do so. Many public bodies also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change.

The key actions the Funds have taken to reduce climate change are set out in the table below:

What targets has the body set for reducing emissions in its own organisation or in its local area?	LPF supports the reduction in corporate emissions and the achievement of net zero targets.
Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	LPF has a strategy on how it manages climate change risks within the investment portfolio. This is included within the Statement of Responsible Investment Principles available online.
How does the body monitor and report progress towards	There is regular reporting to the Pensions Committee. Whilst LPF does not set emissions targets the Fund will disclose the Weighted Average Carbon Intensity of

meeting its emission targets internally and publicly?	their investment portfolio (where data is available) and trend results over time.
Has the body considered the impact of climate change on its financial statements?	Yes, the Fund has engaged a consultant to undertake climate scenario analysis to aid understanding of the scale of the risks.
What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	The value of the Funds investment portfolio and their liabilities might be materially impacted by the climate change.
Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?	Yes, the annual report and accounts have a separate section on climate change within the responsible investment part of the report. This is consistent with other parts of the accounts.

Appendices

Appendix 1: Responsibilities of the Funds and the Auditor

Responsibilities of the Funds

The Funds have primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	The Funds' responsibilities
Corporate governance	The Funds are responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	The Funds have responsibility for: • preparing financial statements which give a true and fair view of the financial position of the Funds and its group and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. The management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of the Funds. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the Funds and its financial performance, including providing adequate disclosures in accordance with the applicable financial

Area	The Funds' responsibilities
	reporting framework. The relevant information should be communicated clearly and concisely. The Funds are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Funds are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The Funds are responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.
Financial position	The Funds are responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The 2021 Code came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Funds and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122

Independence

The Ethical Standards and ISA (UK) 260 require us to give the Funds full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we do not have any matters to not in that regard.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Our period of total uninterrupted appointment as at the end of 31 March 2023 was seven years.

Audit and non-audit services

The total fees charged to the Funds for the provision of services in 2022/23 were as follows:

	Current year £	Prior year £
Audit of Lothian Pension Fund (Auditor remuneration)	53,633	42,579
Audit of components (as audited by Azets)	20,020	18,200
Total audit	**73,653**	**60,779**
Non-audit services - Funds	-	-
Non-audit services – wider group	8,020	7,866
Total fees	**81,673**	**68,645**

The FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We have detailed in the table below the non-audit services provided to both the Funds and the wider group, the threats to our independence and the safeguards we have put in place to mitigate these threats.

Non-audit service	Service provided to	Type of threat	Safeguard
Accounts preparation administration, Xero subscription	LPFE Ltd LPFI Ltd	Self-review	Management retains responsibility for decisions and judgments in preparation of the accounts.
Tax compliance	LPFE Ltd LPFI Ltd	Self-review	Management retains responsibility and judgments in relation to tax services. The services are provided by a team separate to the audit team and directed by a different partner.

Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

To assist the Funds in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated as follows:

Rating	Assessment rationale
High	An issue that results in a severe impact to the achievement of objectives in the area audited.
Medium	An issue that results in a moderate impact to the achievement of objectives in the area audited.
Low	An issue that results in a small impact to the achievement of objectives in the area audited.

Current year action plan

1. Future funding levels	**Medium**
Observation	The results of the next triennial valuation at 31 March 2023 will be available in 2024. The draft results indicate a significantly increased level of funding, and well above 100%. This could mean potential changes to the employers' membership levels in the scheme, if for example, admitted employers elect to leave the Fund to take advantage of high funding levels.
Implication	A wide range of implications are possible, including a potential reduction in contribution level required to sustain the fund, to the change of the employer's membership structure, or the administrative support levels required at the Fund.
Recommendation	We would encourage Lothian Pension Fund to consider medium- and longer-term implications of the expected triennial valuation results, including potential exits from the fund by smaller bodies, and the impact this will have on the Fund's liability.
Management response	LPF are creating processes for assessing the risk of employer who may seek to exit given the increased potential for surpluses post triennial valuation. This is likely to be an on-going process however once the initial assessment has been completed this will inform the leadership team of LPF around the potential quantum of the reduction in employers and members. **Responsible officer:** David Vallery **Implementation date:** 31 December 2023

2. Project Forth	High
Observation	After three years of pursuing Project Forth and a merger between Lothian Pension Fund and Falkirk Pension Fund, the project has been put on hold due to lack of clarity over the future of the merger.
Implication	The Fund will require to assess its strategic vision and consider cost involved in pursuing Project Forth.
Recommendation	We recommend that after three years of pursuing the project the Fund makes a clear decision as to its strategic direction and examines the financial cost of Project Forth incurred to date. We would also expect this to be formally reflected in the Fund strategy and operational plans where appropriate.
Management response	The Pension Committee of LPF is expected to make the decision to formally cease Project Forth at the meeting on 27th September 2023. The strategy of LPF will be amended to reflect the situation and will have a continued focus on the potential for consolidation both across LGPS in Scotland as well as the consolidation of multi fund employers into LPF. **Responsible officer:** David Vallery **Implementation date:** 31 December 2023

3. Members training	Medium
Observation	Our review found that all, but one, current Pensions Committee and Board members met the requirement to have a minimum of 21 hours training.
Implication	Lack of training might lead to less efficient oversight and scrutiny of the Funds activities.
Recommendation	While the LPF Code of Conduct states that these requirements have to be met ‘from time to time’ we would encourage all the members to fulfil this obligation to allow an effective oversight of the Funds activities.
Management response	The matter has been raised with the member in question and will be escalated to the Pension Committee convenor. The Fund continues to provide training to its committee and board members. Additional resources have been allocated to the Secretariat team which will provide additional support and scrutiny to ensure a standard of knowledge is maintained. A revised training and induction framework will be issued later in the year which will set clear expectations and provide clear guidance on training. **Responsible officer:** David Vallery **Implementation date:** 31 December 2023

Appendix 3: Follow up of prior year recommendations

We have followed up on the progress the Funds has made in implementing the recommendations raised by the previous auditor last year which were reported as either new or ongoing.

1. Bank accounts	Action raised in 2017/18
Recommendation	The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 require that after 1st April 2011 all pension fund monies are held in a separate bank account to the administering body and that all future monies received are directly to a pension fund bank account. There are a limited number of occasions where LPF needs to issue sales invoices to recover charges made to employers and members. The amounts involved are insignificant in comparison to the value of pension contributions. As the CEC finance system, as currently configured, does not allow LPF to raise sales invoices in its own name, the invoices go out under the name of CEC and payments are collected in a CEC bank account. However, the amounts involved are clearly identified and are held for the benefit of LPF. As regards purchase ledger payments, the CEC finance system, as currently configured, does not allow LPF to pay suppliers directly from an LPF bank account. However, the amounts involved are clearly identified and netted off against the sales ledger receipts mentioned above. Purchase ledger payments exceed sales ledger receipts by a considerable margin and LPF makes regular monthly payments to CEC. In LPF's opinion, the Regulations do not require payments to LPF suppliers to be made directly from an LPF bank account. As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby unfunded benefits are paid to teachers and other people on behalf of employers as part of the LPF pension payroll. Based on LPF's current understanding, there is a danger that if the unfunded benefits were paid directly from an LPF bank

1. Bank accounts	Action raised in 2017/18
	account, HMRC could regard such payments as unauthorised. For that reason, all benefit payments are made from a CEC bank account with LPF paying the value of the funded benefits into that bank account and CEC covering the value of the unfunded benefits (the cost being recovered by CEC via sales invoices to employers). In LPF's opinion, the Regulations do not require payments to LPF pensioners to be made directly from an LPF bank account. We recommend the Funds put arrangements in place to ensure compliance with the regulations.
Implementation date	**As soon as possible**
Ongoing	Following a competitive procurement process for a new financial ledger system, LPF has identified a preferred tenderer and is liaising with the company to finalise suitable contractual terms. This will include recognition of a further assurance review stage to be undertaken by a specialist provider, prior to implementation of the new system. The tender specification addressed the requirement for suitable configuration to provide "stand alone" payment and sales invoicing for LPF, independent of the City of Edinburgh Council. In respect of payments to pensioners for "unfunded" discretionary awards by former employers, LPF has attained external legal advice which reconfirms its understanding that should unfunded benefits be paid directly from an LPF bank account, then HMRC would regard such payments as unauthorised. The use of a Fund bank account for these "unfunded transfer payments", therefore, is prohibited. Consequently, for reasons of efficiency and simplicity, the pension payroll is combined and both funded and unfunded pension payments are made through a general fund bank account of the administering authority, City of Edinburgh Council. For the funded LGPS payments, the Fund transfers money from its own bank account to that of the City of Edinburgh Council's to cover the value of these

1. Bank accounts	Action raised in 2017/18
	benefits. For the unfunded payments, these are recharged to the employer body (or successor) which originally granted the discretionary benefits. Accordingly, LPF has asked for a (further) response from SPPA for its clarification that the current payment methods, as adopted consistently across all Scottish LGPS administering authorities, should not be interpreted as being in conflict with regulations. LPF's rationale, as asserted to SPPA, is as follows: "LPF transfers the funds to the CEC bank account on the same day as the pensions are paid so there is no question of LPF money sitting in a CEC bank account. The 2010 Regulations require that an administering authority must hold in a separate bank account all monies received by it. There is no stipulation that an authority must pay benefits directly from its bank account to a beneficiary. At the point LPF is paying pensions and other benefits, it is not holding money in an account, it is carrying out a transaction for the purposes of the fund. On that basis, we believe that there is sufficient scope for the SPPA to clarify the interpretation of the Regulations so that is clear that an administering authority may use an intermediary bank account for the purpose of making fund payments." SPPA in their response confirmed that is appropriate to keep the CEC bank account for the unfunded payments. In respect of these mandatory and discretionary compensation payments made by LGPS administering authorities to retired teachers (Teachers' Scheme rather than Local Government Pension Scheme (LGPS)), along with other Scottish LGPS administering authorities, the Fund has requested that responsibility should transfer to the Scottish Public Pensions Agency (SPPA). SPPA has sought information on the relevant scope and scale of the payments being made across those administering authorities wishing to transfer. On

1. Bank accounts	Action raised in 2017/18
	receipt of such, SPPA has committed to consider the matter. **2022/23 update:** Management are now comfortable with the position from CEC regarding funded benefits payments. The transition of the general ledger to XLedger will allow LPF to make supplier payments directly from their own bank accounts.

2. User access controls	Action raised in 2017/18
Recommendation	While our audit review in respect of the 2017/18 financial year did not identify any indications of user access being manipulated, we recommend that the Funds' officers in conjunction with City of Edinburgh Council review user access controls for the financial ledger.
Implementation date	**Initial target date March 2019**
Ongoing	This is an ongoing issue in 2022/23; however, we did not identify any instances where journals were posted by inappropriate users. **2022/23 update:** LPF are in the process of transitioning financial ledgers to XLedger which will be hosted by LPF. The project has focused on ensuring appropriate access rights as part of systems implementation this and an ongoing review of access rights should address potential concerns around access to the ledger.

Appendix 2

LOTHIAN
PENSION FUND

2022/23

AUDITED ANNUAL REPORT AND ACCOUNTS


TRAVEL
AIR TICKET
Hotel Booking
Name :
Lastname :
Date :
CREDIT CARD

CONTENTS

A MESSAGE FROM THE CONVENOR OF THE PENSIONS COMMITTEE

Our responsibility as an administering authority of the LGPS Pension Fund is to offer stability to our scheme members and employers. This year Lothian Pension Fund (LPF) has continued to improve and develop the organisation to ensure that it provides the pension services that its members and employers expect and deserve.

After the Council elections in May 2022, I was appointed Convenor of the Pensions Committee and LPF also welcomed two other new Pension Committee members, Councillor Nicolson and Councillor Doggart. Together with the continuing members, Councillor Ross, Councillor Burgess, Richard Lamont and John Anzani, the committee has continued the work of our predecessors, whilst bringing a fresh perspective, new ideas and constructive feedback to LPF.

In the pages that follow, the team will highlight the progress made in terms of LPF's pensions administration and investment activities, as well as the strategy and business plan. The report will also highlight the significant work undertaken on key projects, including further developing risk management and governance practices and the implementation of new legislation.

LPF is acutely aware of the difficult financial climate and in the coming year, LPF will continue to strengthen its governance, pensions administration, finance and investment arrangements with the aim of providing services that are efficient and effective.

I would like to extend my thanks to the Committee and Pension Board and all the Fund's employees for their continuing commitment to member-focussed change, which is vital for delivering services that meet or exceed the expectations of the scheme's members and employers. I hope you find the LPF annual report and accounts informative and useful.

Mandy Watt
Convenor of the Pensions Committee 2022/23
Lothian Pension Fund

A REVIEW OF 2022/23

The financial year 2022/23 has seen the continuation of the conflict in Ukraine, and exacerbation of the cost-of-living crisis, with the latter leading to significant levels of industrial action, especially in the public sector with workers looking for significant pay increases to protect their earnings.

The passing of Queen Elizabeth II after 70 years on the throne and the subsequent coronation of King Charles III, illustrates both a commitment to service and the need for continuity alongside change.

It's within this context that I'm pleased to share some of our key highlights and achievements during 2022/23, demonstrating how colleagues at Lothian Pension Fund have continued to support our members, meet our commitments on responsible investing, and progress the priorities set out in our business plan.

Progress against our Strategy and Business Plan

We launched our new Strategy and Business Plan in early 2022. It's underpinned by four strategic goals:

- 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.

These goals are set by our Vision "to deliver outstanding pension and investment services for the benefit of members and employers". Despite the challenges of the current economic climate, we were able to make good progress towards delivering these goals and you can read more about our progress throughout this report.

Delivering for our members and their families

2022 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 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.

2022/23 was another year of success and progress for LPF. We continued to deliver for our members, paying out £206,225,397 to 35,632 members and welcoming 7,553 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 92.7% for overall customer satisfaction in our annual surveys.

A REVIEW OF 2022/23

Enhancing our digital proposition

We launched our new website in March 2022, where members and visitors can 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 pensioners. 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 2022 to make our 'Annual Proof of Existence' checks easier for our overseas members.

Secure benefits and a higher funding level

Benefits in Lothian Pension Fund are protected by a statutory guarantee and members can be confident their pensions will be paid when they fall due. Every three years we're required to appoint an independent actuary to undertake a valuation. The most recent valuation was conducted with a reference date of 31 March 2020 and the results are included in this report. The total funding level for Lothian Pension Fund was 106%.

Put simply, this is a measurement of the sufficiency of the assets the Fund holds today to meet the benefits members have earned and expect to receive in the future. A valuation above 100% is a positive result, but benefit obligations increase every day, and the Fund is required to generate positive asset returns and collect contributions to ensure the funding level remains sufficient.

The total assets of the Fund at the end of March 2023 were £9,701m (March 2022 £9,607m).

Work has commenced on the new valuation as at 31 March 2023. The results of this should be reported on in next year's annual report.

WHAT OUR MEMBERS SAY:

"Very approachable staff, efficient and friendly professional service."

A REVIEW OF 2022/23

Investing in our people

During the year we recruited 26 new colleagues across a variety of roles within the Member Services, Finance, Legal, Risk & Compliance, Governance, Investment and IT teams. This includes Kerry Thirkell as Chief Risk Officer, who joins my Senior Leadership Team and the Board of LPFI, our regulated asset management company. Kerry brings extensive experience into this critical role and will help ensure our risk management framework and processes are robust and fit for purpose.

Hiring these colleagues not only ensures 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. You can read more about what we're doing to make LPF a great place to work on pages 58-63.

The LGPS in Scotland and Northern Ireland

LPFI continued to provide advisory services to the LGPS funds of Fife, Falkirk, Scottish Borders, and Northern Ireland, as well as managing assets for Falkirk (two sovereign bond portfolios and a global equity portfolio) and for Fife (two global equity portfolios and one sovereign bond portfolio). In September 2022, 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.

We continued to explore a merger with Falkirk Council Pension Fund. Work to take the 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.

Maintaining momentum on responsible investment

Our focus and commitment to being a responsible investor continued. Our investment strategy currently seeks alignment with the Paris goals and uses the Transition Pathway 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.

In March 2023, we were proud to be listed as a signatory to the UK Stewardship Code, following the publication of our Stewardship Report. Stewardship is the responsible oversight, management, and allocation of capital to create long-term value for clients and beneficiaries that lead to sustainable benefits for the economy, the environment and society. Our report demonstrates the nature of our commitment to stewardship for the benefit of our stakeholders and demonstrates how we're delivering against the 12 principles set out by the Financial Reporting Council.

A REVIEW OF 2022/23

We published Issues 5 and 6 of our ESG ezine, *ENGAGE,* which gives detailed information on LPF's approach to ESG and our responsible investment activities.

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.

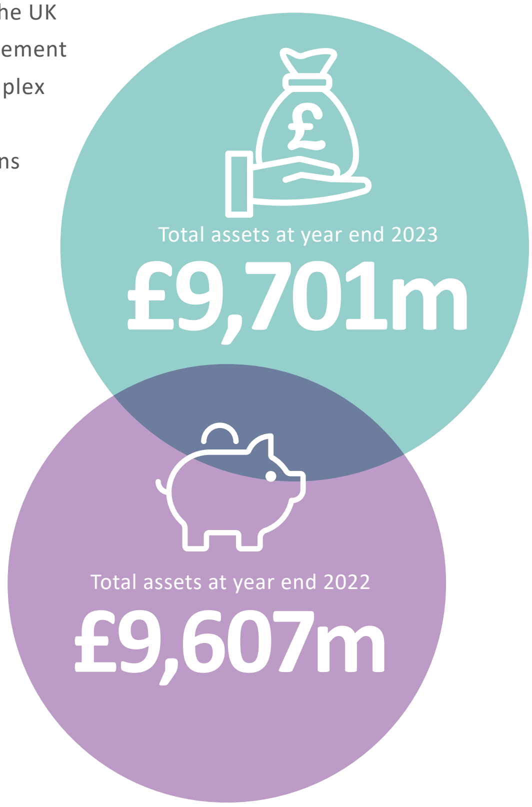
McCloud and The Pensions Dashboard

The 'McCloud judgement' is a court ruling which found that the transitional protections for older workers provided in 2015, alongside the move of the Local Government Pension Scheme (LGPS) in Scotland from a final salary benefit structure to a career average scheme, were age discriminatory. Following this judgement, the government has been consulting on a revised scheme to extend similar protection to more workers and thereby rectify this prior discrimination on an equitable basis. Regulations are expected towards the end of 2023, and we remain ready to communicate with employers and members on the requirements and implications.

The Pensions Dashboard Regulations 2022 were laid and approved by the UK Government and came into force on 12 December 2022. The latest statement from Government advised that more time is needed to deliver this complex build, and for the pensions industry to help facilitate the successful connection of a wide range of different IT systems. Amended regulations are being laid which will include a revised connection deadline of 31 October 2026.

Affordability of pensions

During the year we assisted three employers with a managed exit from the Fund and we have a total of 19 funding agreements in place for employers who have previously exited in respect of satisfying their obligations to the Fund in regards to their employees. We amended our Funding Strategy Statement in line with regulatory amendments which allow greater flexibilities to help funds manage employer exits.



A REVIEW OF 2022/23

Oversight and governance of the Fund

The local elections in May 2022 resulted in changes to the composition of the Pensions Committee. Councillor Mandy Watt took over as convenor, with Councillors Doggart and Nicolson joining the Committee. Councillors Rose, Child and Munn left the Council and Committee following the elections and I'd like to acknowledge their contribution to the effective governance of the Fund. With a comprehensive induction programme and continuity provided by the four remaining members of the Committee, good governance was maintained through the transition.

Throughout this report, there's comment from Mandy on behalf of the Pensions Committee, from Jim Anderson on behalf of the Board, Hugh Dunn on behalf of the LPFI and LPFE Boards and from Andy McKinnell as our Independent Professional Observer. Each of these roles and the bodies they represent perform a vital function in supporting the governance of Lothian Pension Fund. Beyond fulfilling their prescribed roles, each has provided me and the colleagues in the Fund with encouragement, counsel, and guidance, and on behalf of the team, I wish to express our collective gratitude.

David Vallery
Chief Executive Officer
Lothian Pension Fund

GOVERNANCE AND RISK

Lothian Pension Fund (LPF) administers the Local Government Pension Scheme (LGPS) in Edinburgh and the Lothians. We're a multi-employer scheme with over £9.6 billion of assets at end March 2023 and were 106% funded at our last valuation in 2020, managing 93,716 records of 87,716 members and 63 employers. Lothian Pension Fund is the second largest LGPS fund in Scotland.

We also manage the Scottish Homes Pension Fund on behalf of the Scottish Government. This is a closed fund and has 1,349 deferred and pensioner members with £0.13 billion investments.

We manage over 85% of assets in-house investing in infrastructure, property and timberland in the private market portfolios as well as listed equity and bond portfolios.

LPF is unique within the Scottish LGPS sector in having our own FCA authorised asset management firm. We established a regulated investment vehicle in 2015 which provides investment advisory, deal execution and portfolio management services to the group and certain external partner LGPS funds.

In March 2017, we became the first UK Local Government pension fund awarded accreditation for the Pensions Administration Standards Association and have retained this accreditation along with the Customer Service Excellence Award for over 10 years.

The day-to-day running of LPF is carried out by a specialist team who undertake pension administration, accounting and investment functions.

Our comprehensive website provides easy access to all relevant pension information at www.lpf.org.uk. This includes our Annual Report and Accounts of the Fund, Statement of Investment Principles, Funding Strategy Statement, Pensions Administration Strategy and Pensions Discretions Policy.

COLLEAGUE PROFILE ANDREW DUFFY, DATA ANALYST

Andrew joined LPF in June of 2020 as a Trainee Pensions Administrator and started his current role as a Data Analyst in January of this year. Andrew helps to maintain and improve the quality of LPF's data as well as making sure the information we receive from employers every monthly is accurate.

"My role is challenging and interesting and I enjoy having the opportunity to explore improvements to our processes and data collection. I really like the people and culture at LPF. Having friendly and supportive colleagues make for a very pleasant working environment."

GOVERNANCE AND RISK

The Pensions Committee and Pensions Audit Sub-Committee

All LPF and SHPF matters are overseen by the Pensions Committee, supported by the Audit Sub-Committee, and its members act in a 'quasi trustee' capacity for the two funds.

The Pensions Committee normally holds four meetings and the Audit Sub-Committee usually holds three meetings per year. LPF's governance structures continued to operate as designed, and meetings of the Committees and Pensions Board operate via a hybrid model with some members attending in person and others dialing in remotely via Teams.

The table below shows the Committee members for the year 2022/23:

COMMITTEE MEMBERS FROM 1 APRIL 2022 - 31 MARCH 2023

PENSIONS COMMITTEE	PENSIONS AUDIT SUB-COMMITTEE
Councillor Mandy Watt (Convenor) (from 30 June 2022)	
John Anzani (Member representative)	John Anzani (Member representative) (Convenor from 29 June 2022)
Councillor Phil Doggart (from 19 May 2022)	Councillor Phil Doggart (from 29 June 2022)
Councillor Neil Ross	Councillor Neil Ross
Councillor Steve Burgess	
Councillor Vicky Nicolson (from 25 August 2022)	
Richard Lamont (Employer representative, VisitScotland)	
Councillor Rob Munn (Convenor) (until 5 May 2022)	
Councillor Cameron Rose (until 5 May 2022)	Councillor Cameron Rose (Convenor) (until 5 May 2022)
Councillor Maureen Child (until 5 May 2022)	Councillor Maureen Child (until 5 May 2022)
Councillor Marco Biagi (from 19 May 2022 to 25 August 2022)	

GOVERNANCE AND RISK

The Pension Board

The Pension Board was established on 1 April 2015 as set out in the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014.

The role of the Pension Board is to help ensure that the operation of LPF is in accordance with the applicable law and regulations. The Board attend all Pensions Committee meetings and two representatives also attend the Pensions Audit Sub-Committee meetings.

The membership comprises ten members, five representatives appointed from the employer bodies (with one current vacancy), and five representatives appointed by trade unions for the membership of LPF. The Pension Board membership for 2022/23 is shown in the table below. There was one vacancy as of 31 March 2023.

MEMBER REPRESENTATIVES

Jim Anderson	Unison (Chair)
Thomas Carr Pollock	GMB
Brian Robertson	Unite
Thomas Howorth	Unison
Tony Beecher	Unite

EMPLOYER REPRESENTATIVES

Sharon Dalli	Police Scotland
Darren May	Scottish Water
Nick Chapman	Lothian Valuation Joint Board
Alan Williamson	Edinburgh College
Vacancy as of 31 March 2023	

The Committee and Board members must attend no less than 21 hours of training per year as outlined in LPF's training policy which is available on our website at www.lpf.org.uk.

All new members of the Pensions Committee and Pension Board attend induction training. Other training provided internally covered topics including investment strategy, governance and responsible investment.

Committee and Board representatives also attended external conferences virtually and in person, including the LGPS Seminar Scotland, as well as a variety of Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and Hymans Robertson webinars.

All the Pension Committee and Pension Board members achieved the required training hours during 2022/23 with the exception of one member. Pensions Committee members have collectively attended 179 hours of training as at 31 March 2023 and members of the Pension Board undertook 262 training hours.

GOVERNANCE AND RISK

Scheme Advisory Board (SAB)

The Scheme Advisory Board for the Local Government Pension Scheme in Scotland was set up following the Public Service Pensions Act 2013. The Board's main function is to advise Scottish Ministers, when requested, on the desirability of changes to the Scheme. They can also provide advice to scheme managers and pension boards in relation to effective and efficient administration and management of the Scheme in Scotland.

The membership of the Scheme Advisory Board comprises seven representatives each from member and employers with a Joint Secretary to support each group, and included Councillor Cameron Rose until May 2022, and Councillor Mandy Watt from August 2022. Brian Robertson, one of the trade union representatives on LPF's Pension Board was the chair, then vice chair of the SAB during the year. There's more information on the Scheme Advisory Board at www.lgpsab.scot.

GOVERNANCE AND RISK

LPFE and LPFI Boards

LPF colleagues are employed by an arms-length company, LPFE Limited (LPFE), which is wholly owned by the Council (in its capacity as administering authority for LPF). It's supervised by a Board of Directors, chaired by the City of Edinburgh's Service Director: Finance and Procurement and includes the Convenor of the Pensions Committee. Our team carry out certain activities through our Financial Conduct Authority authorised vehicle, LPFI Limited (LPFI).

LPFI is also wholly owned by the Council (in its capacity as administering authority for LPF) and is supervised by a Board of Directors chaired by the Council's Service Director: Finance and Procurement. Both the Boards of LPFI and LPFE includes two independent Non-Executive Directors, Leslie Robb and Andy Marchant.

All the operations, costs and liabilities in relation to LPF, including those of LPFE and LPFI, are borne by LPF.

The day-to-day running of LPF is carried out by a specialist investment and pensions team. Our functions include investments, finance and operations, people and communications, Information and Communication Technology (ICT) oversight and governance, legal, risk, and compliance.

Our investment responsibilities include carrying out in-house investment management and the monitoring and selection of external investment managers, as well as external facing collaborative initiatives with other like-minded pension funds.

MEMBERSHIP OF LPFI AND LPFE BOARD OF DIRECTORS IN 2022/23

LPFE Ltd	LPFI Ltd
Hugh Dunn, CEC, Service Director: Finance and Procurement	Hugh Dunn, CEC, Service Director: Finance and Procurement (Chair)
Leslie Robb, Non-Executive Director	Leslie Robb, Non-Executive Director
Andy Marchant, Non-Executive Director	Andy Marchant Non-Executive Director
Councillor Mandy Watt, Convenor of the Pensions Committee (from 30 August 2022)	John Burns, LPF, Chief Finance Officer
David Vallery, LPF Chief Executive Officer	Bruce Miller, LPF, Chief Investment Officer
Katy Miller, CEC, Head of HR (until 4 November 2022)	David Vallery, LPF, Chief Executive Officer
Councillor Rob Munn, Convenor of the Pensions Committee (until 5 May 2022)	Kerry Thirkell, LPF, Chief Risk Officer (from 16 September 2022)
Struan Fairbairn, LPF, Chief Risk Officer (Company Secretary) (until 15 September 2022)	Struan Fairbairn, LPF, Chief Risk Officer) (until 15 September 2022)

GOVERNANCE AND RISK

Joint Investment Strategy Panel

Investment strategy guidance is provided by the same Joint Investment Strategy Panel (JISP) that advises the Falkirk Council and Fife Council Pension Funds. The membership of the panel includes two senior investment professionals from LPFI including the Chief Investment Officer and two external independent advisers.

The Pensions Committee of each pension fund agrees their own investment strategy but delegates the implementation of the strategy, including selection of investment managers, to officers.

The JISP advises the three pension fund administering authorities on implementation of their respective investment strategies. The assets of Lothian Pension Fund, Falkirk Council Pension Fund and Fife Council Pension Fund remain separate, including the Scottish Homes Pension Fund being separate to Lothian Pension Fund.

From 1 April 2022 to 31 March 2023 JISP met quarterly. The table below sets out the panel's membership.

JOINT INVESTMENT STRATEGY PANEL

Bruce Miller	Chief Investment Officer (LPFI)
Stewart Piotrowicz	Portfolio Manager (LPFI)
Kirstie MacGillivray	External Advisor
Stan Pearson	External Advisor

A nominated officer from Lothian Pension Fund, Falkirk Pension Fund and Fife Pension Fund attend each meeting of the panel.

GOVERNANCE AND RISK

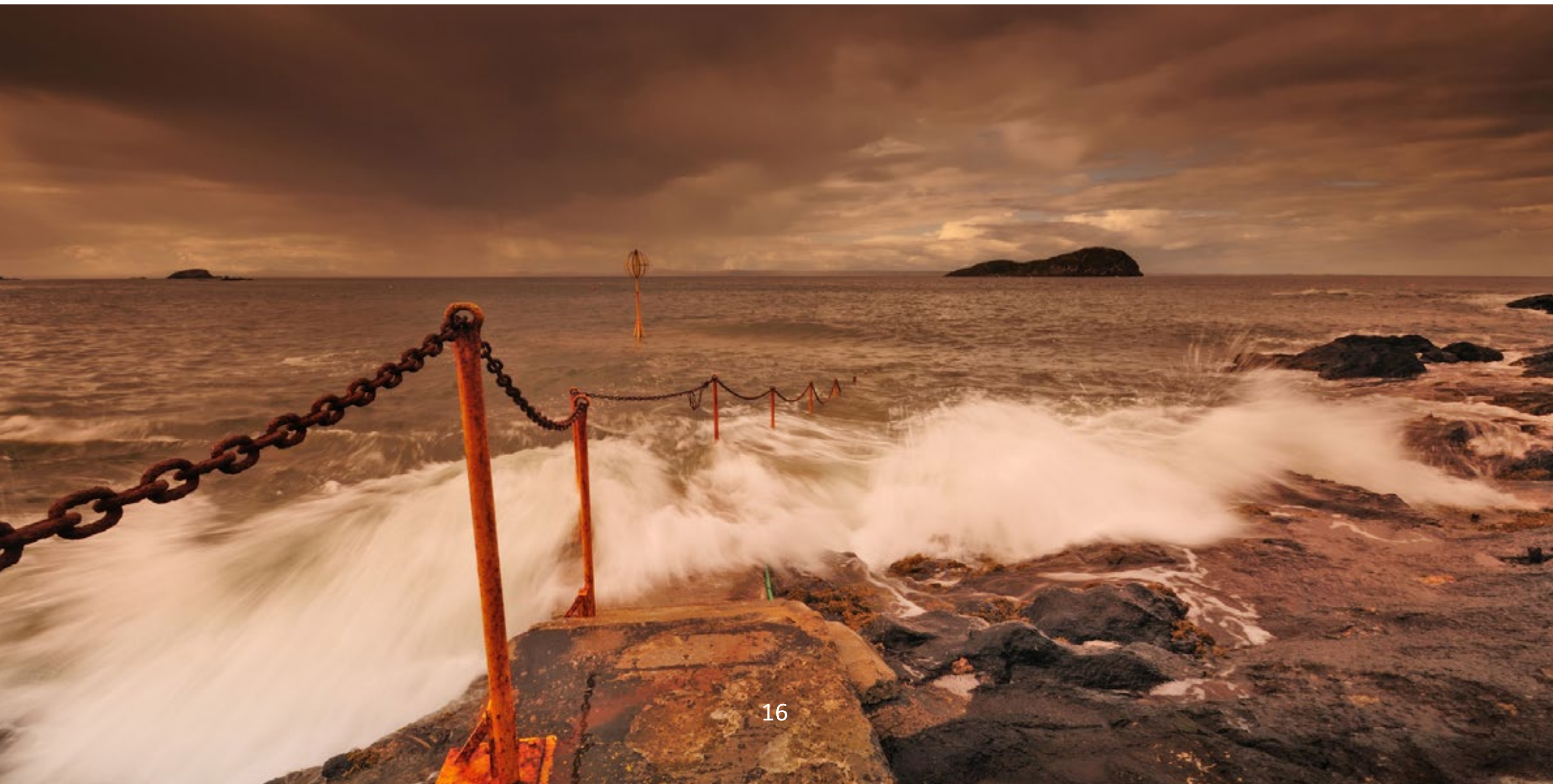
The Senior Leadership Team (SLT) of Lothian Pension Fund as at 31 March 2023 comprised:

- David Vallery, Chief Executive Officer
- Bruce Miller, Chief Investment Officer
- Kerry Thirkell, Chief Risk Officer
- John Burns, Chief Finance Officer
- Helen Honeyman, Chief People Officer
- Karlyn Sokoluk, Chief Operations Officer

Risk Management

LPF has a risk management framework in place across its business functions and group entities including a toolkit and methodology for identifying, assessing, evaluating, monitoring and reporting risks and controls. This helps to ensure that we're able to operate and demonstrate an appropriate and effective control environment which continues to facilitate and support LPF's forward looking business strategy and objectives.

Our risk register is formally considered by the Risk Management Group quarterly but is also updated on an ad hoc basis where required. The Risk Management Group oversees the implementation and ongoing effectiveness of LPF's risk management framework, and comprises senior officers of each function within the group, as well as the Senior Leadership Team (SLT).



GOVERNANCE AND RISK

Risk analysis and reporting is provided to the Pensions Committee and Audit Sub-Committee on a quarterly basis. In addition, the full risk register is circulated to the convenors of the Pensions Committee and Audit Sub-Committee, Chair of the Pension Board and Independent Professional Observer each quarter.

At the last Risk Management Group meeting held within the reporting period, the most significant risks, together with the key controls and mitigants managing the risk, are summarised below:

Regulatory Risk
The risk of being unable to meet regulatory obligations is managed through a combination of oversight activities, compliance procedures and policies, staff training, regulatory horizon scanning and continuous improvement.

Cyber Risk
The risk that cybersecurity protections and/or back-up are insufficient to prevent or minimise attacks and disruptions, is managed through a comprehensive suite of technical security controls, complimented by an ongoing programme of training and communications, and phishing tests.

Projects & Change
The risk that project and change activities aren't effectively managed and don't deliver expected objectives is managed through a project and change framework and supporting methodology, with regular governance and oversight through a formal senior management forum.

Governance
The risk that the group structure and governance arrangements aren't operating compliantly or effectively and with proper authority is managed through secretarial activities that include meeting and training scheduling for board and committee members, governance portal providing access to relevant material, provision of training to relevant stakeholders, appointment of Non Executive Directors on corporate boards, and documented delegations.

Third Party Suppliers
The risk that sub-optimal service delivery and oversight of third party suppliers leads to disruptions or errors is managed through a supplier management framework and procurement processes.

Resource
The risk that staff resource is insufficient to carry our core tasks is managed through regular review of headcount, structure and resource, with review and approval of organisational plans, succession plans and recruitment.

GOVERNANCE AND RISK

As LPFI is regulated by the FCA, it's subject to the requirements of the Investment Firm Prudential Regime ('IFPR'), and must ensure that it remains viable throughout the economic cycle, can address any harm from its ongoing activities, and that it can wind-down in an orderly manner. This means holding a minimum level of financial resources, and regularly assessing how much should be held. To facilitate this, an Internal Capital Adequacy and Risk Assessment (ICARA) process is required to be undertaken and regularly reviewed to ensure internal systems and controls are operating to monitor and reduce potential harms. The ICARA and the risk management framework need to be integrated to ensure all material relevant risks have been identified, articulated and assessed to ensure that risks of harm can be properly considered and accounted for. The LPFI board has oversight of this process.

3 Lines of Defence

A 3 Lines of Defence model helps underpin the integrity of the risk management framework:

1. **Line 1:** business management responsible for identifying and managing risk and ensuring its activities are compliant with legal, regulatory, and organisational requirements

2. **Line 2:** Risk & Compliance function support the business in managing risks and achieving compliance, monitoring risk and compliance levels in the business and reporting on risk and compliance matters to management and governance forums

3. **Line 3:** independent oversight by Internal Audit providing independent assurance on the control framework and quality of implementation.

LOTHIAN
PENSION FUND

OUTSTANDING SERVICE

'Your care and consideration in helping me to transfer my father's pension helped us greatly at a difficult time.'

INVESTMENT

Investment markets

For the 12 months to 31 March 2023, global equities, as measured by the MSCI ACWI index, returned -1.4% in sterling terms (source: MSCI). However, the weaker pound masked a more pronounced decline of -7.4% in US dollar terms (source: MSCI). It was a year almost as extraordinary as 2020, when Covid emerged, and returns for most asset classes were curtailed by the challenging conditions.

Soaring inflation and central banks' policy responses dominated the backdrop for financial markets. The mounting pace of inflation was worsened by the supply shock brought about by the war in Ukraine, with UK consumer price inflation reaching 40-year highs. The reaction from most major central banks was to aggressively tighten monetary policy, marking a dramatic shift from the extremely low interest rates that had been in place since the financial crisis of 2008. This is an environment that many had become unaccustomed to and the unfamiliar conditions exposed frailties in the financial system, contributing in some part to the LDI crisis in the UK and the failure of two large US banks.

Government bond prices fell over the year, due to rising base rates and higher inflation, with the political crisis in the UK causing forced sales of long-dated gilts by some pension funds. 10-year gilt yields rose from 1.61% to 3.49% (reaching as high as 4.6%), giving an annual return of -10.9%. Although corporate bond credit spreads (the difference in yields between bonds of differing quality) widened over the year, it was the sharp rise in underlying government bond yields that caused most of the damage, with sterling investment grade credit returning -10.2% over the year. Commercial real estate returns were also strained by falling capital values as property owners, many of which are highly leveraged, contended with rising borrowing costs. However, some of the most eye-catching falls were among 'growth' stocks where valuations were severely marked down as sentiment for this part of the market soured.

JOHN ANZANI

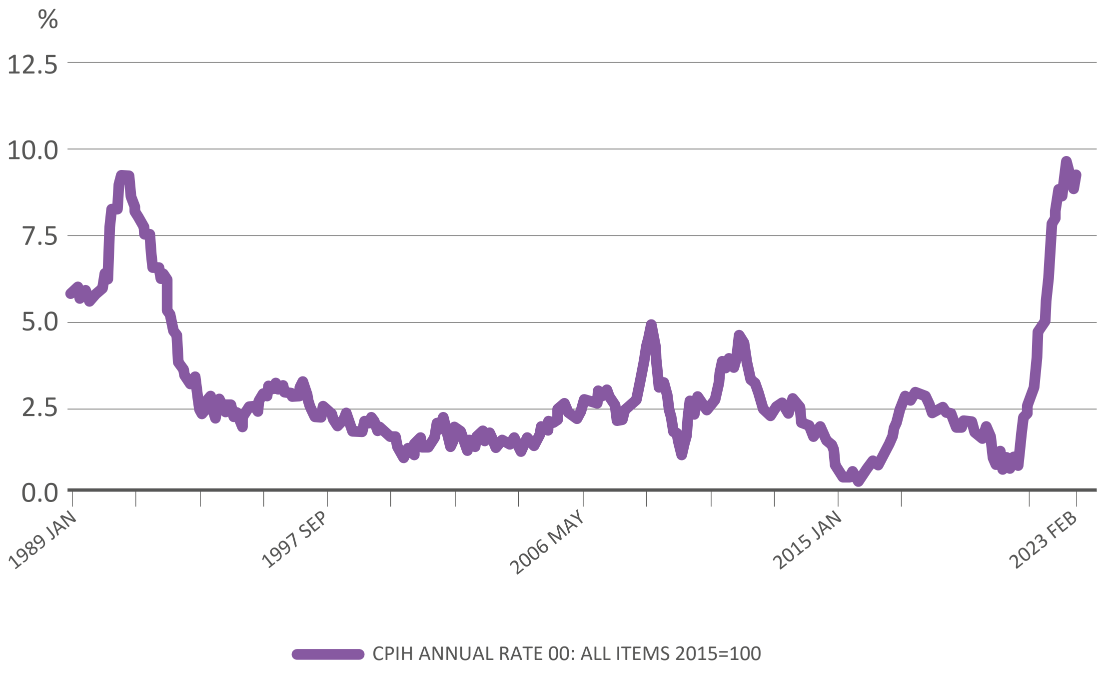
"This year the Audit Sub Committee has been engaged in assessing the effectiveness of LPFs audit, risk and compliance reporting. It has also taken steps to work closer with both the internal and external auditors. Effective oversight of internal and external auditors is key to the Audit Committee's ability to discharge its responsibilities in helping provide a clear understanding of the fund and ensuring that the internal audit plan is aligned to the key risks faced by the fund. The Committee reaffirmed its satisfaction that the fund operates within reasonable risk boundaries. It welcomes the evolving process that LPF's management team are implementing to ensure challenge and continuous improvement. In the future the Audit Sub Committee looks forward to working with LPF's auditors and management team to ensure that our risk and compliance monitoring programmes continue to meet the high expectations and standards of LPF."

Convenor of the Audit Sub Committee in 2022/23

INVESTMENT

Inflation's influence over investment markets appears set to continue with disinflation to pre-pandemic levels likely to take some time. However, there's cause to believe that inflation has already peaked amid moderating commodity prices and the cooling effect of monetary policy. With that, central banks appear to be nearing the peak of this tightening cycle which may signal a more favourable backdrop ahead for asset valuations. However, risk remains around whether inflation proves to be 'stickier' than hoped. Expectations for corporate earnings have held up well to date, though those forecasts may prove overly optimistic as economic growth deteriorates in the face of the tight monetary policy, declining real wages and heightened geopolitical tensions. Meanwhile, fiscal policy is handicapped by high debt burdens and costlier borrowing, as demonstrated by the rapid unwinding of the Truss government's plans. More positively, the recent reversal of China's 'zero-Covid' policy provides a welcome boost for growth. With several meaningful macroeconomic and geopolitical challenges to be navigated, it's hard to imagine that there won't be further significant financial market volatility in the coming years.

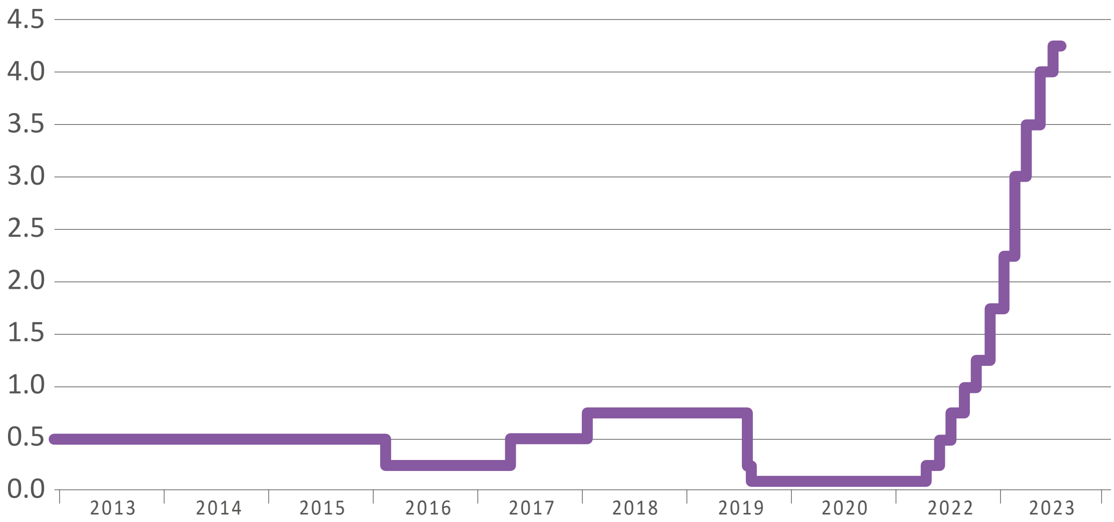
UK INFLATION (CPIH) - ANNUAL CHANGE



Source: https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23

INVESTMENT

BANK OF ENGLAND OFFICIAL RATE



Source: https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp

HUGH DUNN

"Over the last year, LPFI Ltd and LPFE Ltd, continued to focus on delivering key strategic aims and service improvements to support LPF. LPFE and LPFI are key in LPF's success in supporting thousands of scheme members. LPFE enables us to recruit and retain the best possible colleagues. This year LPFE welcomed 26 new colleagues including a new Chief Risk Officer and appointed a Chief Operating Officer for the first time. They join our existing skilled and member focussed teams. Meanwhile, LPFI facilitates us to have an efficient and cost effective investment service which supports our collaboration with other local government pension schemes. This year, LPFI's investment management service increased its assets under management to £1.4billion over the course of the year.

I have announced my intention to retire in September 2023 and I'm delighted to have had the opportunity to contribute to LPFI and LPFE's development, seeing both companies flourish and evolve over the last 7 years. I would like to thank everyone for their commitment and work on behalf of members. It has been a pleasure to work with you all in support of the members and employers of LPF."

Chair of LPFI and LPFE Boards, and CEC Service Director: Finance and Procurement

LOTHIAN PENSION FUND

RESPONSIBLE INVESTMENT

'We recently joined Advance, an initiative focussed on human rights and social issues for workers, communities and society.'

RESPONSIBLE INVESTMENT

Our investment principles

Responsible Investment is a core part of our investment policy and we always operate within the policy, legal and regulatory frameworks that apply to us. We invest in the interests of our beneficiaries and employers and our fiduciary duty requires us to act in a financially prudent manner, taking Environmental, Social and Governance (ESG) factors into consideration in the context of the financial risk that arises from the investment.

As an asset owner in the public sector, striving for high standards of transparency within the constraints of commercial sensitivities, we're understandably subject to considerable scrutiny of our investments. To assist our many stakeholders to better understand the philosophy behind our overall approach to Responsible Investment, we publish our Statement of Responsible Investment Principles (SRIP). In this document, which is reviewed and updated annually, we set out how we undertake investment in a responsible manner, detailed on an asset class by asset class basis, to achieve our stewardship aims.

WHAT OUR MEMBERS SAY:

"Staff are very helpful on the phone as I am not confident using online."

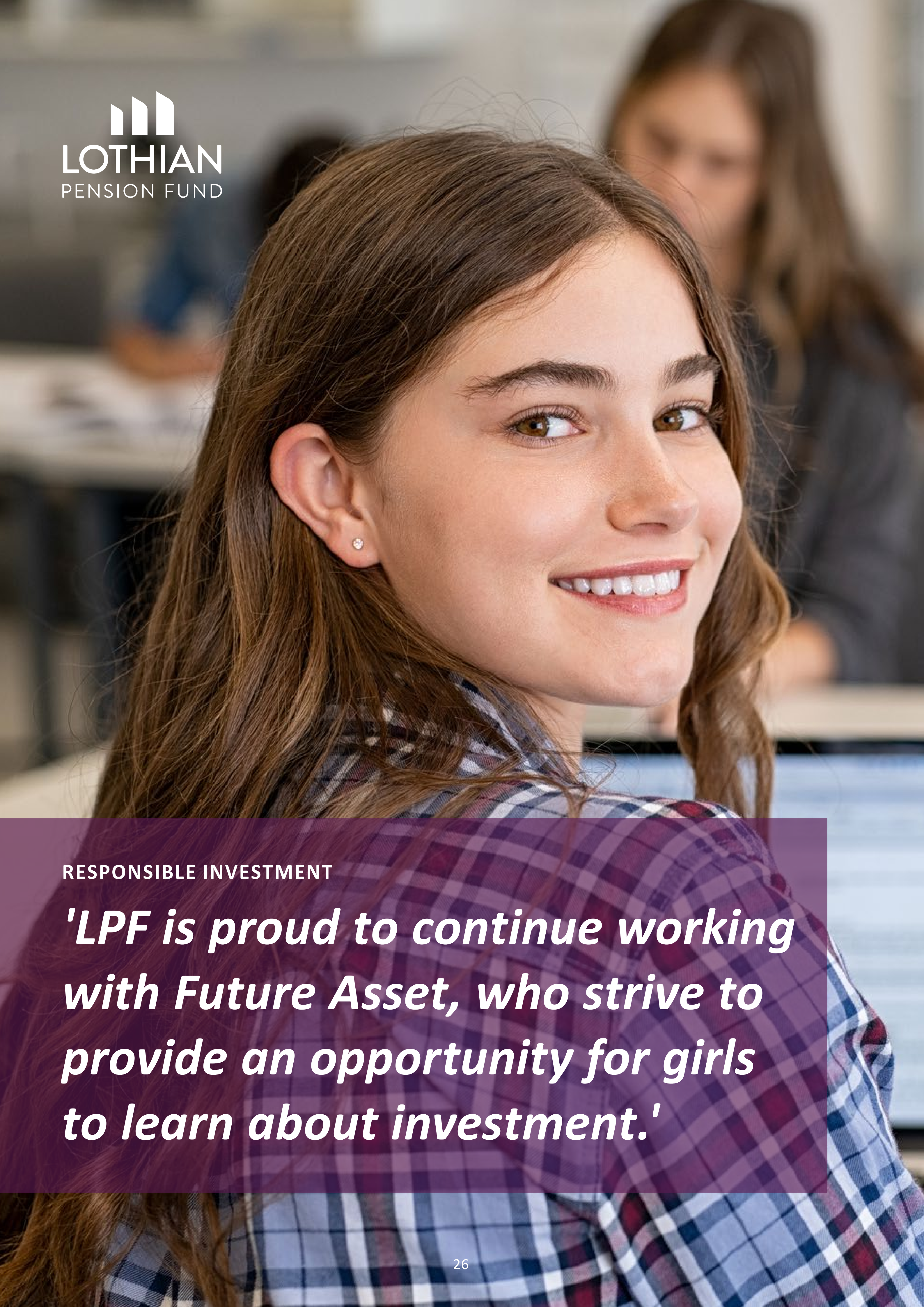
RESPONSIBLE INVESTMENT

Responsible Investment (RI) and Stewardship Reporting

We produce an annual Stewardship Report which contains a wealth of detail and examples on the implementation of our RI policies. Our most recent Stewardship Report was published in October 2022 covering the year to 31 December 2021. It was assessed by the Financial Reporting Council, confirming our continued status as a signatory to the stringent UK Stewardship Code 2020.

Our Stewardship Report explains the core activities that we undertake, both individually as a fund, and collectively with like-minded organisations. These actions include voting on the resolutions of the companies in which we're invested and engaging with a high percentage of them, often through our engagement partners, to drive positive change in corporate behaviour and mitigate investment risk. We employ an engagement partner, currently Federated Hermes EOS, and work with other organisations, such as LAPFF (Local Authority Pension Fund Forum), Climate Action 100+ and the PRI (Principles for Responsible Investment), to promote responsible investing.

As a provider of responsible capital, we believe LPF should be an agent for positive change. Our *ENGAGE* e-zine provides insight into our investment activities; from providing examples of where ESG considerations have impacted our investment decision-making, to celebrating award-winning environmental initiatives.



RESPONSIBLE INVESTMENT

'LPF is proud to continue working with Future Asset, who strive to provide an opportunity for girls to learn about investment.'

RESPONSIBLE INVESTMENT

Climate change

As of February 2023, 195 members of the United Nations Framework Convention on Climate Change are parties to the Paris Agreement. The three key aims of the Paris Agreement are:

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that doesn't threaten food production
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development.

Separate to this, but part of the overall worldwide change in attitude towards greenhouse gas emissions, the Financial Stability Board (FSB) of the Bank of England launched the Taskforce on Climate-Related Financial Disclosures (TCFD). TCFD aims to: "develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders." Further information is available at www.fsb-tcfd.org.

As asset owners, we've been engaging with the companies in our portfolios to enhance disclosures on emissions in line with the recommendations of TCFD, as well as working alongside peer organisations to promote the aims of the TCFD and reporting our approach to climate change-related risks and opportunities.

As part of the TCFD resources, investors and asset owners also have guidance on how to report their approach to climate-related risks and opportunities. These recommendations are split into four key areas of reporting.

- **Governance** relates to the organisation's governance and climate-related risks and opportunities
- **Strategy** relates to the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning
- **Risk management** relates to the processes used by the organisation to identify, assess and manage climate-related risks
- **Metrics and Targets** relates to metrics and targets used to assess and manage relevant climate-related risks and opportunities.

We engage with companies to encourage them to improve their disclosure to support us in integrating climate change risk and opportunities into the risk management and governance at LPF. Over the last few years, we've undertaken substantial work on the issue, as detailed in our Stewardship Report.

RESPONSIBLE INVESTMENT

Climate change – governance

The Pensions Committee's approach to climate change risks is encapsulated in the Statement of Responsible Investment Principles.

The Committee and Board considers climate-related issues as part of its annual review of our approach to Stewardship. Climate-related risks and opportunities are an integral part of our overall investment process. The Pensions Committee is responsible for setting investment strategy and delegates implementation of strategy to officers taking advice from the Joint Investment Strategy Panel and working with investment managers. Climate-related risk management is reviewed as part of the regular monitoring process for all investment mandates and includes scrutiny of how ESG analysis is integrated into investment decision-making.

RESPONSIBLE INVESTMENT

Climate change – strategy and risk management

We recognise the outsized impact that some specific sectors and industrial activities have on climate change by virtue of the magnitude of their greenhouse gas emissions. While many prefer to label companies in carbon intensive industries as 'bad' and those in low-carbon and alternative energy businesses as 'good', history shows that firms need to reinvent themselves to survive. LPF strives to influence and support positive changes by corporate leaders to achieve sustainability for their firms and for society. Consequently, we have a policy of engagement rather than blanket divestment, which allows us to exert influence on companies to improve their business practices, align with the Paris goals, and disclose internal climate-related risk and opportunity management with TCFD compliant reporting.

Our approach to engagement relies heavily on our engagement and voting partner, EOS at Federated Hermes (EOS). EOS engages with companies on a range of engagement issues, including climate change. The internal team also engages with company management on a regular basis as part of company meetings and investment conferences. Details on our engagement and voting activity is provided in our annual Stewardship Report.

In addition, we're a member of the Institutional Investors Group on Climate Change and of the Climate Action 100+ investor initiative. We actively participate as a co-lead in engagement with one of the 166 target companies in the initiative's list of systemically important carbon emitters.

Regular training and development for all colleagues on climate related issues is provided. This includes governance functions, management, investment decisions makers, and pensions administration colleagues. This creates an internal culture that's serious about the risks to capital posed by the low carbon transition, as well as the physical risks of climate change.

The Fund's investments can be broadly classified as follows: fundamentally managed equity; quantitatively managed equity; passively managed government debt; directly owned commercial property and externally managed funds (covering all asset classes). As part of the stock selection process for the fundamentally managed portfolios, any fundamentally material climate-related risks and opportunities (such as carbon pricing and the low carbon transition) are individually assessed and monitored by the managers. The quantitative portfolios are monitored for material risks arising from ESG issues on a regular basis. Both the fundamental and quantitively managed equity funds utilise engagement to improve business practices. The selection and monitoring process for

RESPONSIBLE INVESTMENT

external managers incorporates ESG assessments, which continue to be refined as the industry evolves.

Our internal managers continue to monitor opportunities in the green energy and future technology space, both in the public and private markets. Much of the current investment in green energy is being undertaken by the incumbent energy providers (the diversification of carbon-extractive companies and carbon burning utilities).

With a research budget specifically allocated to data services targeting ESG and climate-related risks and opportunities, we produce an annual carbon footprint for listed equities and corporate bonds. This measures the weighted average carbon intensity of the portfolio as a whole. More importantly, it allows us to identify important factors, such as high carbon emissions, to guide our company engagements and forward-looking analysis of the risks to the Fund's invested capital from the low carbon transition.

While it's widely acknowledged that climate change is one of the great issues facing society, it's one of several risks that we must mitigate. In that sense, it's no different to any other risk. We believe in a holistic, integrated approach to analysis taking all risks, including climate-related risk, into consideration.

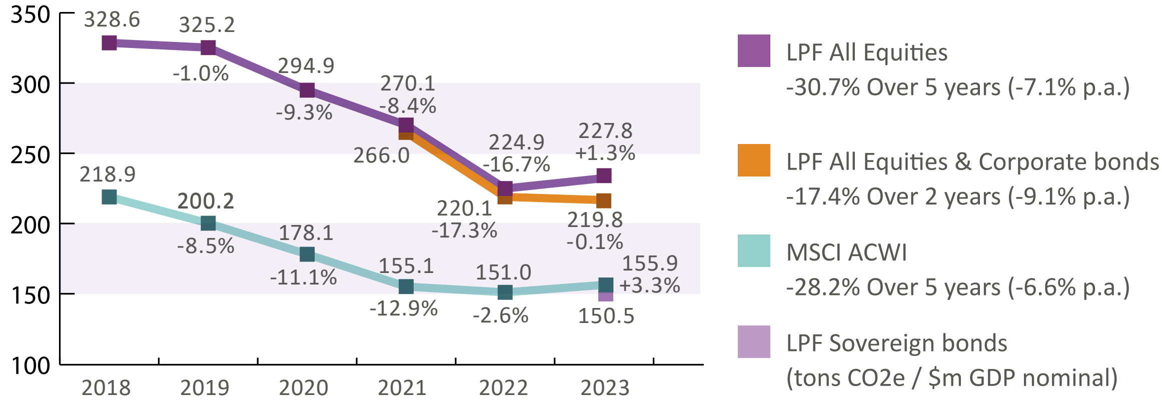
Climate change – monitoring and metrics

The Pensions Committee and Pension Board review ESG (including climate related) issues at least annually as part of oversight of the stewardship of Fund assets. Officers and the Joint Investment Strategy Panel of advisers monitor investment mandates and individual investments at least quarterly.

In-line with TCFD best practice, we've reported a measure of carbon efficiency since 2018: WACI is the Weighted Average Carbon Intensity, with units of tons CO2/$M sales. We use this carbon efficiency measure as it allows us to look on a granular basis at how well a company is managing its emissions, rather than simply what its absolute emissions are. By looking at companies with similar activities, it's possible to use this metric to separate those companies with good practices from those with bad practices. We calculate the portfolio WACI by weighting these intensities according to the portfolio position sizes and adding all the weighted intensities to give a figure for the portfolio and the index. In practice, however, investment managers use a variety of data on individual companies to assess prospects rather than a single carbon metric.

WACI (TONS CO2e / $m SALES)

Source: MSCI



RESPONSIBLE INVESTMENT

Under the Greenhouse Gas (GHG) Protocol:

- Scope 1 emissions are defined as direct GHG emissions that are controlled or owned by an organisation
- Scope 2 emissions are indirect GHG emissions that are the result of an organisation's energy use, such as electricity, steam, heat or cooling
- Scope 3 emissions are all other indirect emissions, such as from the production of purchased materials and fuels, supply-chain transport-related activities, outsourced activities, waste disposal, customers' emissions when using or accessing the organisation's products or services.

Our WACI figures are calculated based on Scope 1 and 2 carbon emissions. Advances in data and methodology, especially in the adoption of a new approach to standardised emissions counting pioneered by the Partnership for Carbon Accounting in Financials (PCAF) have enabled us to present combined data for our equity and corporate bond holdings since 2021. This year we've been able to also calculate the WACI for our sovereign bond investments. However as the sovereign bond WACI is calculated in a different way, it's not meaningful to aggregate this with the corporate WACI calculated for our equity and corporate bond holdings. We have an ambition to keep expanding the coverage of our emissions reporting across all our assets as data becomes available (supported by external managers and using estimates if necessary) and present more granular emissions data by scope ahead of the deadline for enhanced TCFD reporting for the Scottish LGPS.

While we expect the average carbon intensity of our investments to decline over the longer term as the global economy decarbonises, this trend may be volatile year on year as we incorporate more emissions data and as the out performance of certain sectors can swing the annual snapshot in any one year.

RESPONSIBLE INVESTMENT

Carbon intensity numbers are currently treated as outputs of the investment process rather than targeted inputs into the investment process. This is because these numbers are fundamentally easy to “game”. Our reported portfolio level carbon intensity numbers could easily be brought down by selling the most carbon intensive stocks and replacing those investments with lower emission stocks. While this might be considered “good” optically, companies will continue to emit carbon in the same manner whether LPF sells or retains the shares.

We firmly believe that global decarbonisation will provide benefits to society and the environment, and we therefore support efforts to reduce carbon emissions in the real economy. We do this by engaging (either directly or in collaboration with other investors) with companies and policy makers to encourage businesses to pivot towards a lower carbon future.

Paris alignment

As data from the Transition Pathway Initiative (TPI) and Carbon Action 100+ are developing and improving, it has become increasingly incorporated into our investment process. The TPI data showing Paris Alignment is an important forward-looking indicator for risk management purposes.

Our involvement in Climate Action 100+ reinforces our belief that engaging with companies to help them pivot their businesses towards a lower carbon future is a far more responsible approach than simply divesting or excluding all stocks in high exposure sectors. We’ll continue to engage with our holdings rather than setting specific carbon intensity targets for our overall portfolio.

We’re also engaging with our external managers to better understand their approach to aligning the investments they make on our behalf to a future net zero emissions world, and to encourage improved reporting of emissions data and other sustainability metrics.

Global Real Estate Sustainability Benchmark (GRESB) data in the infrastructure and real estate asset classes is tracked and incorporated into reporting in these areas.

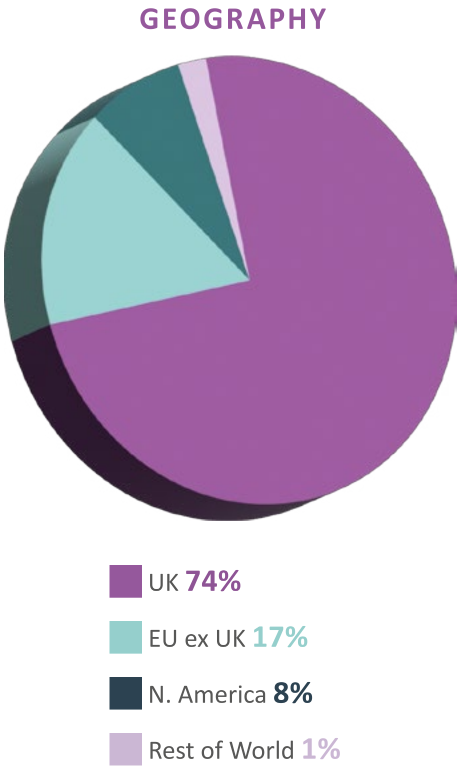
RESPONSIBLE INVESTMENT

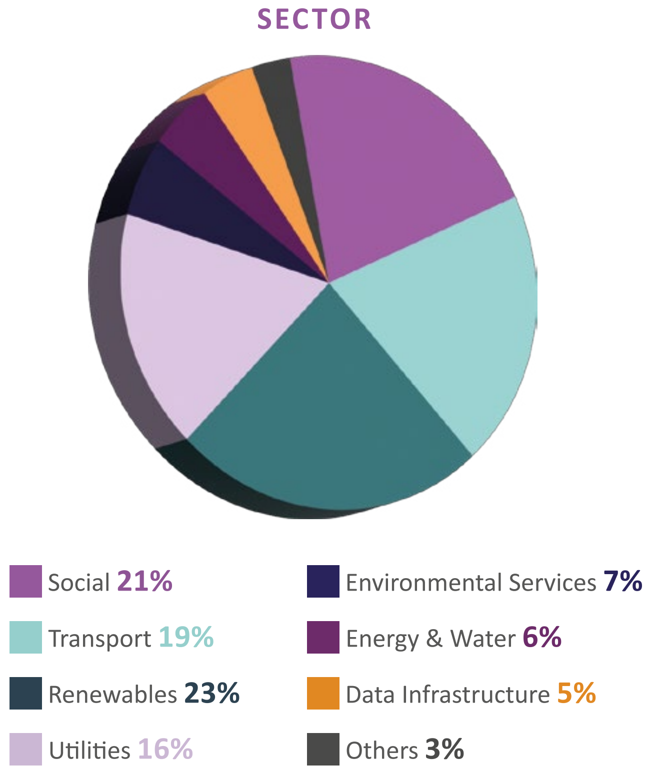
Climate solutions

We're also monitoring our investments in climate solutions. These are companies or assets that help the global economy achieve net zero. One of the clearest examples of climate solutions is our investments in renewable energy projects through our infrastructure portfolio.

Infrastructure investments represented 13.4% of the value of Lothian Pension Fund assets at 31 March 2023, comprising one of the largest and most diversified allocations among UK LGPS funds. Of the total infrastructure portfolio, the majority is invested in the UK, and around a quarter of the portfolio is invested in renewables. During 2022/23, Lothian Pension Fund invested over £100m in renewable energy projects.

The geographic and sector diversification for Lothian Pension Fund infrastructure (as a percentage of infrastructure asset value of £1.3bn) is shown in the charts below.





FUNDING STRATEGY STATEMENT

The Funding Strategy Statement was fully revised at the 2020 Actuarial Valuation and reflects CIPFA guidance: “Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016”. Amendments were made in 2022 following amendments to scheme regulations.

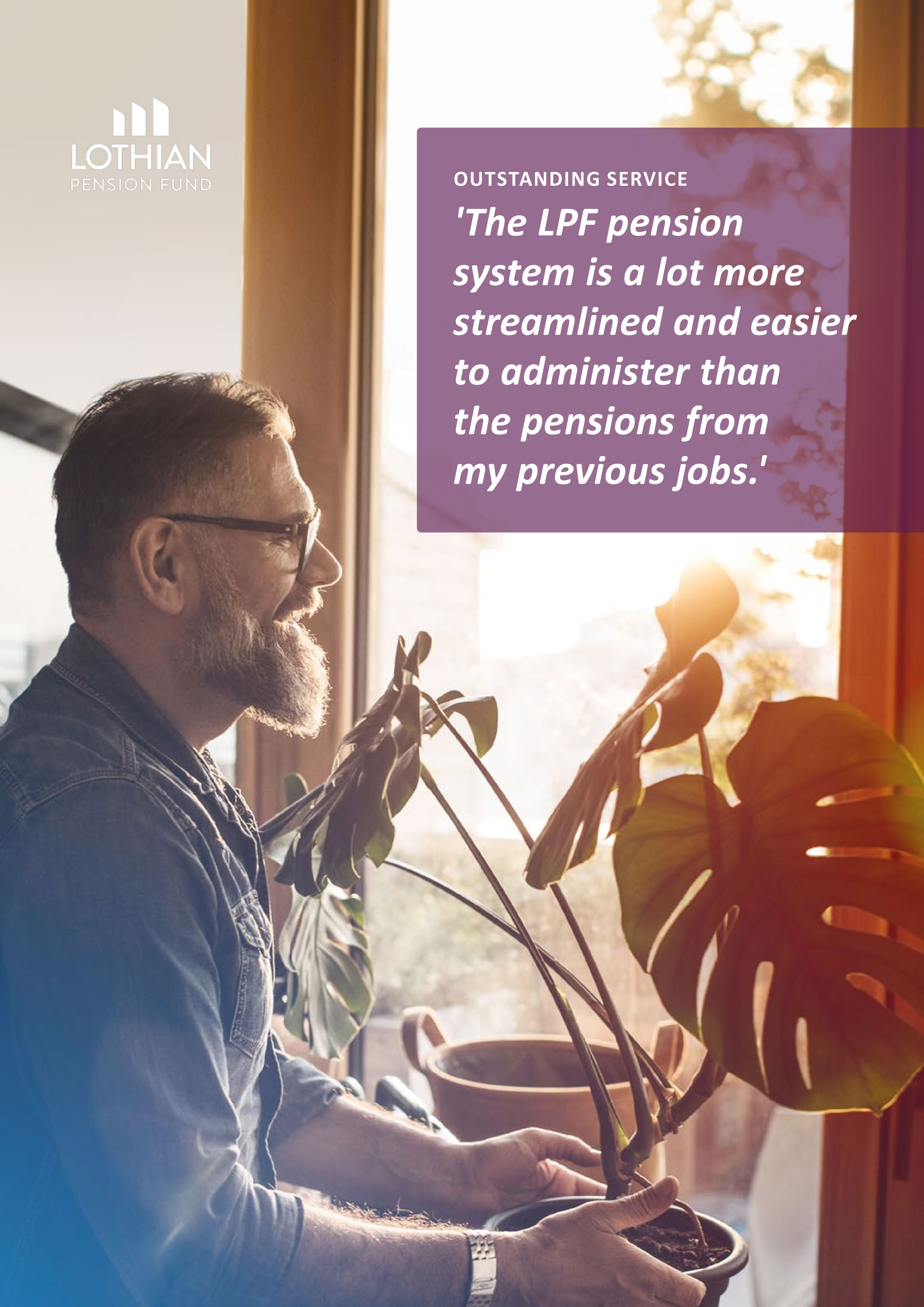
The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy), or asset returns (derived from the investment strategy). A formal review of the Fund’s investment strategies is undertaken at least every three years to ensure appropriate alignment with liabilities. Further information on the investment strategies can be found in LPF's Statement of Investment Principles also available at www.lpf.org.uk.

The next triennial valuation for both funds will be undertaken as at 31 March 2023.

Full reviews of both the Funding Strategy Statement and the investment strategies will be carried out as part of this process.

WHAT OUR MEMBERS SAY:

"From start to finish you have been fabulous, as I have friends with terrible experiences. So, for me, I could not say how you could make anything better, so thanks."



LOTHIAN PENSION FUND

OUTSTANDING SERVICE

'The LPF pension system is a lot more streamlined and easier to administer than the pensions from my previous jobs.'

FINANCIAL PERFORMANCE

Administration expenses

A summary of the Fund's administrative expenditure for 2022/23, against the budget approved by the Pensions Committee, is shown in the table below.

The budget focuses on controllable expenditures, so excludes all benefit payments and transfers of pensions from the Fund. Similarly, income doesn't include contributions receivable and pension transfers to the Fund. The total net cost outturn of £38,376k against the budget of £34,550k represented an overspend of £3,826k (11.1%) for the Fund.

The most significant budget variances serving to generate this overspending were:

- **Investment managers fees – Uninvoiced – £4,757k overspend.** The reason for the Funds overspend against budget is due to its uninvoiced investment management costs, a majority of which relates to its private market investments. One off refurbishment and transaction costs for the Funds in-house direct property mandate was the contributing factor to the variance against budget

- **Investment managers fees - Invoiced – £600k underspend.** Invoicing based for externally managed mandates based on market value. A £50m divestment from one of these mandates and below forecasted market values have resulted in an underspend for the year

- **Supplies and Services – £228k underspend.** Underspending occurred against budget for investment systems, in particular the delay in the scheduled upgrade to the Fund's front office system

- **Other third-party payments– £186k underspend.** Underspend occurred in a variety of areas including custody services, broken deal provision and project costs

- **Capital funding - depreciation– £29k overspend.** A decision was taken during the year to write off the Atria refurbishment costs over 2022/23-2023/24 financial year with potential office move taking place

- **Income – £258k under-recovery.** Income in relation to collaborative partners is based on a cost sharing mechanism. Due to underspend against budget, in particular staff costs, as well as the lower than expected deal flow in relation to collaborative investments, income was below budget.

FINANCIAL PERFORMANCE

	Approved budget	Actual outturn	Variance
	£000	£000	£000
Employees	7,126	6,930	(196)
Transport and premises	278	272	(6)
Supplies and services	2,396	2,168	(228)
Investment managers fees - invoiced*	4,000	3,400	(600)
Investment managers fees - uninvoiced*	20,725	25,482	4,757
Other third-party payments	1,727	1,541	(186)
Capital funding - depreciation	257	286	29
Direct Expenditure	**36,509**	**40,079**	**3,570**
Support costs	620	618	(2)
Income	(2,579)	(2,321)	258
Total net controllable cost to LPF	**34,550**	**38,376**	**3,826**

**Does not include performance element. In 2022/23, £9.1m was paid in fees in relation to the Fund's private market investments.*

Reconciliation to total costs	Actual outturn
	£000
Actual outturn on budgeted items above	38,376
Securities lending revenue included in income above	536
Investment management fees deducted from capital – performance related element	9,062
IAS19 LPFE retirement benefits	(8,364)
LPFE deferred tax on retirement benefits	1,088
Corporation tax	38
Total cost to LPF (inclusive of full cost investment management fees)	**40,736**
Per Fund Accounts	
Lothian Pension Fund Group	40,683
Scottish Homes Pension Fund	53
Total	**40,736**

FINANCIAL PERFORMANCE

LOTHIAN PENSION FUND

Cashflow

Cashflow 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 tables below show the projected cash flow, as reported to Pensions Committee on 23 March 2023, against the actual movement for the year. It's important to distinguish between the basis of preparation for these, with the projected figures prepared on a cash basis, i.e. from when cash is received by the Fund, compared to the accruals basis of the Financial Statements to reflect accounting standards.

	2022/23 Projected	2022/23 Accruals basis	2022/23 Cash Basis
Income	**£000**	**£000**	**£000**
Contributions from employers	210,500	201,867	201,504
Contributions from employees	55,000	57,383	57,067
Transfers from other schemes	7,000	6,551	6,551
	272,500	**265,801**	**265,122**
Expenditure			
Pension payments	(206,000)	(206,225)	(206,225)
Lump sum retirement payments	(66,000)	(62,030)	(60,752)
Refunds to members leaving service	(830)	(845)	(845)
Transfers to other schemes	(13,000)	(11,689)	(11,689)
Administrative expenses	(3,000)	(3,202)	(3,202)
	(288,830)	**(283,911)**	**(282,713)**
Net additions/(deductions) from dealings with members	**(16,330)**	**(18,190)**	**(17,591)**

FINANCIAL PERFORMANCE

Cashflow (cont.)

Lothian Pension Fund	Actual	Cash flow forecast									
	2022 /2023 £m	2023 /2024 £m	2024 /2025 £m	2025 /2026 £m	2026 /2027 £m	2027 /2028 £m	2028 /2029 £m	2029 /2030 £m	2030 /2031 £m	2031 /2032 £m	2032 /2033 £m
Pensions income	265.8	278.7	291.7	305.3	319.6	334.6	350.3	366.7	383.9	401.9	420.9
Pensions expenditure	(284.0)	(315.3)	(327.3)	(339.9)	(353.1)	(366.9)	(381.4)	(396.6)	(412.6)	(429.4)	(447.0)
Net pensions cash flow	**(18.2)**	**(36.6)**	**(35.6)**	**(34.6)**	**(33.5)**	**(32.3)**	**(31.1)**	**(29.9)**	**(28.7)**	**(27.5)**	**(26.1)**
Net investment income	**339.1**	**352.7**	**366.8**	**381.5**	**396.8**	**412.7**	**429.2**	**446.4**	**464.3**	**482.9**	**502.2**

The above figures are the estimated annual cash flow on pensions activity and investment income for the next ten years. The forecast is based on the 2022/23 actual cash flows (included for comparison) adjusted for actuarial assumptions.

Throughout the forecast period it's expected that investment income will provide multiple cover for negative net pensions cash flow, with no asset sales being required to fund on going pensioner payments.

SCOTTISH HOMES PENSION FUND

	2022/23 Projected	2022/23 Accruals basis	2022/23 Cash Basis
Income	**£000**	**£000**	**£000**
Administration charge	90	90	90
Expenditure			
Pension payments	(6,500)	(6,258)	(6,258)
Lump sum retirement payments	(750)	(783)	(773)
Transfers to other schemes	(100)	(17)	(17)
Administrative expenses	(90)	(55)	(55)
	(7,440)	**(7,113)**	**(7,103)**
Net additions/(deductions) from dealings with members	**(7,350)**	**(7,023)**	**(7,013)**

Scottish Homes Pension Fund is a mature fund with no active members. As a result, pension outlays are met from investment income, supplemented by asset sales. Net pension outlays were £7.1 million which is broadly in line with the prior year.

Membership statistics and funding statements from the Actuary are provided for both funds in the Fund Accounts sections.

FINANCIAL PERFORMANCE

Cashflow (cont.)

Scottish Homes Pension Fund	Actual	Cash flow forecast									
	2022 /2023 £m	2023 /2024 £m	2024 /2025 £m	2025 /2026 £m	2026 /2027 £m	2027 /2028 £m	2028 /2029 £m	2029 /2030 £m	2030 /2031 £m	2031 /2032 £m	2032 /2033 £m
Pensions income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions expenditure	(7.1)	(7.7)	(7.5)	(7.4)	(7.3)	(7.2)	(7.1)	(7.0)	(6.9)	(6.8)	(6.7)
Net pensions cash flow	**(7.1)**	**(7.7)**	**(7.5)**	**(7.4)**	**(7.3)**	**(7.2)**	**(7.1)**	**(7.0)**	**(6.9)**	**(6.8)**	**(6.7)**
Net investment income	**2.0**	**2.0**	**2.0**	**1.9**	**1.8**	**1.7**	**1.7**	**1.7**	**1.6**	**1.6**	**1.6**

The estimated annual cash flows for Scottish Homes Pension Fund is based on actuarial analysis of the fund's membership profile. Although investment income is below the annual pension outgoings, no asset sales are required to meet the shortfall. Instead the all gilt investment strategy incorporates these cash flow requirements, with redemption dates of gilts tying into the fund's liquidity needs.

2020 Actuarial valuations

The most recent triennial assessment of the funding position of the pension funds was undertaken by LPF’s Actuary as at 31 March 2020. The valuation set employer contribution rates for the three year period from 1 April 2021. The Funding Strategy Statement was reviewed and amended following consultation with employers.

For Lothian Pension Fund, the funding level increased from 98% at 31 March 2017 to 106% at this valuation. The deficit of £145million at 31 March 2017 became a surplus of £408 million at 31 March 2020.

Lothian Pension Fund requires employers to provide written confirmation that minimum contribution rates set by the Actuary are affordable, as it’s not in the best interests of the individual employers or the fund for employers to continue to accrue unaffordable pension liabilities. The fund continues to work with employers to put in place funding agreements to address repayment of debt when an employer leaves, to avoid employer default or insolvency.

The funding level for Scottish Homes Pension Fund at 31 March 2020 was 117.7%, increased from 104.7% from the 2017 actuarial valuation. Consultation was undertaken with the Scottish Government on the potential benefits offered by revising the Funding Agreement for this fund. However, it advised that it didn’t want to revisit this and, as a result, the investments of the fund are now fully invested in UK government bonds and cash.

Work has commenced on the next triennial valuation for both funds which will be undertaken as at 31 March 2023. Results from this are expected in the final quarter of 2023.

FINANCIAL PERFORMANCE

Investment management cost transparency

Local authorities are required to account for pension funds in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council, where these provide additional guidance. Guidance is still awaited from CIPFA as to how these costs should be standardised and reported in the Annual Reports of LGPS Funds.

The Chartered Institute of Public Finance and Accountancy (CIPFA) published this guidance in July 2014, which promoted greater transparency of investment management fees. These principles were adopted as best practice in the presentation of the Lothian Pension Fund audited Annual Report 2015. In June 2016, CIPFA revised its guidance including the following: “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the Fund Account.”

The revised guidance changed the disclosure of fees for fund of funds investment arrangements. A ‘fund of funds’ is an investment holding a portfolio of other investment funds rather than investing directly in funds. Typically, fees are payable to the ‘fund of funds’ manager as well as to the managers of the underlying funds. Generally, under the revised guidance from CIPFA, the second and third layer of fees would not be disclosed with just the fees from the ‘fund of funds’ manager stated.

In the preparation of the Fund’s Annual Report for 2014/15 and 2015/16, the Fund made efforts to be completely transparent on the totality of costs incurred for managing its investment assets. The Fund’s disclosures included all layers of fees. At its meeting on 28 September 2016, the Pensions Committee instructed the Committee Clerk to communicate to CIPFA, Audit Scotland and the Scottish Local Government Pension Scheme Advisory Board (SLGPSAB), the Committee’s and Convenor’s disquiet with the relaxation of the principle of full cost transparency of investment management fees, as explicit in CIPFA’s revised guidance “Accounting for Local Government Pension Scheme Management Costs”.

COLLEAGUE PROFILE RACHELLE WONG, MEMBER ADMINISTRATOR

Rachelle joined us in June 2020 as a trainee. Rachelle helps with the day-to-day processing in general tasks and most recently has updated the refund procedure to let members claim their refund of contributions online.

“The team is very approachable and you can always find an answer to a question with the depth of knowledge the pension admin team holds. I also love the diversity in the role in our everyday tasks.”

FINANCIAL PERFORMANCE

In May 2018, CIPFA published: "Proposals for LGPS Fund Reporting in a 'Pooled World.'" This sets out proposals for revised reporting for LGPS pension funds to meet several objectives, including:

- To further enhance reporting of costs reflecting the introduction of the LGPS SAB Code of Transparency for asset managers
- Initiatives underway by the Financial Conduct Authority (FCA) and Department for Work and Pensions (DWP) which aim to create more transparent and granular reporting standards for both providers and trustees

In March 2019, CIPFA published "Preparing the annual report – Guidance for Local Government Pension Scheme Funds (LGPS) 2019 Edition." The purpose of this guidance is to assist local government pension funds with the preparation and publication of the annual report required by Regulation 55 of The Local Government Pension Scheme (Scotland) Regulations 2018.

The Pensions and Lifetime Saving Association (PLSA) has also issued cost data templates to support its Cost Transparency Initiative. The aim of this initiative is to provide a standardised way for asset managers to report costs and charges to investors. Such further cost disclosure will be included within the notes to the financial statements.

The financial statements of Lothian Pension Fund and Scottish Homes Pension Fund continue to include full transparency for both funds' internal and external investment management fees.

COLLEAGUE PROFILE TOM COWIE, SENIOR FINANCE MANAGER

Tom joined us in May 2022 as a Senior Finance Manager. Tom supports the smooth running of the Finance team of the Fund, ensuring the delivery of accurate financial information so that our members are paid correctly and on time.

"From the very first day I started with LPF, I've been welcomed into a supportive and nurturing work environment. No day has been the same and the variety of projects and opportunities I've had to develop my career has been fantastic. I look forward to continually serving LPF to achieve the very best outcomes for our members!"

FINANCIAL PERFORMANCE

	Lothian Pension Fund		Scottish Homes Pension Fund	
	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000
Investment management expenses in compliance with CIPFA guidance	36,356	44,336	98	88
Investment management expenses per financial statements	37,183	44,942	98	88
Disclosure of management expenses in excess of CIPFA guidance	**827**	**606**	-	-

Utilising its internal investment management expertise, the investment strategy of Lothian Pension Fund has evolved to move away from complicated and expensive investment vehicle structures, such as fund of funds, to increased direct investment, e.g. in infrastructure. This significantly reduces the layers of management fees incurred.

The Fund is now at the realisation stage of its fund of fund investments, with its holdings in listed private equity and infrastructure funds being reduced and those receipts serving to fund additional direct investments. It's expected that over time these disclosures will continue to fall. Crucially, the disclosure of the full costs of investment management remains fundamental to effective comparison between LGPS funds, particularly given the common use of fund of fund investment vehicles.

Investment cost benchmarking

Investment strategy focuses on risk-adjusted returns net of costs. The Fund has participated in investment cost benchmarking provided by CEM, an independent benchmarking expert for global pension funds, with a database of 299 pension funds representing £8.8 trillion in assets. To provide a relevant comparison, CEM calculates a benchmark based on fund size and asset mix, which are key drivers of investment costs.

The latest analysis available (for the year to 31 March 2022) showed that LPF's investment costs of 0.29% of average assets were significantly lower than CEM's benchmark cost of 0.50%, an equivalent annual saving of approximately £18.9m. This saving largely reflects the fact that the Fund manages a relatively high percentage of assets internally compared with other similar pension funds and that it has low exposure to fund-of-fund investment vehicles.

PERFORMANCE AND ADMINISTRATION

Key performance indicators 2022/23

Our strong commitment to customer service drives continuous service development, ensuring the best possible service, whilst recognising potential demands of the future. We set challenging performance targets and measure these through both key indicators which are reported to our Pensions Committee and Pension Board, and internal indicators, which are reported to internal management. This year we've focussed on improving the services we provide digitally to enable members quick and easy access to their personal information.

The table shows our performance against these targets.

2021/2022		Target	2022/2023
Retained	Maintain Customer Service Excellence Standard (CSE) (Annual assessment)	Retain	**Retained**
Unqualified opinion	Audit of Annual Report and Accounts	Unqualified opinion	**Unqualified opinion**
100%	Proportion of members receiving a benefit statement by August	100%	**100%**
96.5%	Overall satisfaction of employers, active members and pensioners measured by surveys	90%	**92.7%**
99.8%	Percentage by value of pension contributions received within 19 days of end of month to which they relate	99%	**99.91%**
	Rolling 10-year fund return is >+5% pa unless the benchmark is <+5%pa, in which case, the relative return is positive	Meet benchmark monthly	**Met**
Met	Monthly pension payroll paid on time	Met	**Met**
2.5%	Level of sickness absence	4.0%	**2.58%**
100%	All colleagues complete at least two days training per year	100%	**100%**
76%	Colleague engagement index	Greater than 70%	**79%**

OUTSTANDING SERVICE

'I didn't realise it was so easy to upload documents to My Pension Online. I'll encourage my co-workers to do the same.'

PERFORMANCE AND ADMINISTRATION

Value for money

Pension administration benchmarking

Value for money is the term used to assess whether an organisation has obtained the maximum benefit from the services it acquires or provides, within the resources available to it.

It has three components to take account of: economy, efficiency and effectiveness.

For many years, LPF has participated in benchmarking provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The purpose of this is to help identify the areas where we can make improvements to deliver better value for money. The benchmarking facilitates:

- Comparison between costs and performance
- The provision of evidence to support decisions on budget relating to the sustainability and capability to enhance customer satisfaction
- Sharing of information and ideas with peers
- A review of performance trends over time.

The Pensions Administration Standards Association (PASA)

Holding PASA Accreditation is the gold standard for quality in pensions administration. We're proud to hold accreditation, as we believe that it's important that we can demonstrate that we're carrying out our role as a LGPS efficiently and effectively. The PASA standards are an excellent external validation of these capabilities.

PERFORMANCE AND ADMINISTRATION

The outputs and analyses have served to supplement internal performance management information.

We participated in the pension administration survey carried out by CEM for the first time in 2019. This gave us further insight into pension administration costs and quality of service and we've continued to participate since then.

Although CIPFA is exclusive to local authority funds, the CEM peer group also included UK private sector schemes. Participating funds from both private and public sectors were of a significantly larger size than LPF. CEM's benchmarking results categorised our pension administration service as "low cost; high service standard".

Interim results show that cost per member of £26.30 is lower than the adjusted average of £39.94, and a service score of 74 out of 100, which is higher than the peer median of 67. Reasons for the higher score compared to the peer group include:

- Paying retirement lump sums more quickly
- Providing assistance to vulnerable members, including offering specially formatted printed materials and including notifications on our website
- Carrying out targeted campaigns including encouragement to update beneficiary information.

WHAT OUR MEMBERS SAY:

"I found Lothian Pension Fund knowledgeable, friendly, and prepared even to anticipate steps beyond my limited questions and requests, and to offer very welcome and helpful possible alternatives."

PERFORMANCE AND ADMINISTRATION

Customer and complaint feedback

Listening to feedback is key to our services and LPF carry out surveys to monitor individual and overall satisfaction. Our overall satisfaction continues to improve and in 2023 remains above the 90% target at 92%.

We also monitor complaints and ensure we respond to and resolve all complaints where possible, within 20 working days.

We investigate and learn from both formal and informal complaints to ensure we're continuously improving our services. Complaints are split by those about the service we provide and those about how Scheme Regulations are applied.

We carried out 24,832 processes in 2022/23 and there were very few complaints made, less than 0.01 %. Complaints covered a broad range of issues including aggregating previous membership, late payment of retirement benefits and transferring pension benefits.

Internal dispute resolution procedure (IDRP)

Pensions law requires that the Local Government Pension Scheme must have a formal procedure in place for resolving disputes arising from the running of the scheme. The IDRP is a two-stage process. An external independent appointed person deals with disputes at the first stage and the second stage is dealt with by the Scottish Ministers.

In 2022/23, there was one Stage 1 dispute for investigation. If a member remains dissatisfied with the Stage 1 decision, they have six months to take their appeal to Stage 2. In 2022/23 there was one Stage 2 dispute. These disputes are included in the statistics below.

Reason for dispute	Stage 1 outcome	Stage 2 outcome	On-going
Decision on who to pay a lump sum death grant to	0	dismissed	0
Non return of contributions on re-joining LGPS	0	dismissed	0
Awards, e.g. early payment of deferred pension on health grounds	1 ongoing	1 upheld	2

Further information about the IDRP and complaints procedure is available on our website at [Complaints and Appeals / LothianPensionFund].

PERFORMANCE AND ADMINISTRATION

Our data

We issued 100% of benefit statements by the statutory deadline of 31 August 2022.

We measure our pension record keeping standards against The Pensions Regulator's best practice guidance. Poor record-keeping can lead to significant additional costs in areas such as administration, error correction, claims from members, as well as fines from The Pensions Regulator.

All our employers submit monthly contribution and pensionable pay data through our employer data portal, and we audit submissions to ensure the continuation of data accuracy.

We utilise a Data Quality Service provided by the administration software supplier to determine the scores for our common and conditional data, as required by The Pensions Regulator. The scores are based on the percentage of clean member records; those considered to be without a single data failure.

The following scores were submitted to The Pensions Regulator for the 2022 annual scheme return. Lothian Pension Fund and Scottish Homes Pension Fund scored 98.6% and 97.8% respectively for common data (2021 scores were 98.4% and 97.5% respectively) and 99.5% and 100% for conditional data (2021 scores were 99.5% and 99.9% respectively). The quality of data continues to be considered to be of a high standard.

Customer Service Excellence (CSE)

We're proud to have held the Customer Service Excellence (CSE) Award (previously known as Charter Mark) since 2008.

The CSE Awards were established to provide a practical tool for service providers to drive customer-focussed change within their organisation. It has helped us to become even more efficient and effective and provide an excellent service to our members and employers.

Yearly formal assessments are carried out by a licenced certification body and we're delighted to have received successful inspections for the last 16 years.

PERFORMANCE AND ADMINISTRATION

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019, a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 4 August 2020, the Scottish Public Pensions Agency (SPPA) issued a statutory consultation on the proposed remedy, with this closing in October 2020. As anticipated, it's proposed that a comparison will be made between the benefits payable under the current rules, with the entitlements which would have been paid if the Scheme had not changed in 2015, and with any higher sum being paid to the member. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Many members' benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced.

As the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementation of the remedy is expected to be extremely challenging from both administration and communications perspectives. SPPA has not yet published its formal response to its consultation.

In late February 2022, SPPA advised that "The Public Service Pensions and Judicial Offices Bill is currently working its way through the committee stage and is on track to get Royal Assent early in 2022. The Department for Levelling-up, Communities and Housing in England and Wales (DLUCH) has confirmed that it intends that the final McCloud remedy regulations will be made in Summer 2022. Scheme regulations will then be backdated to 1 April 2014. Scottish Ministers intend to mirror those regulations. It is intended that Scheme regulations will be made in the second quarter of 2022, coming into force on 1 April 2023. The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2022 will be backdated to 1 April 2015."

We're currently awaiting the government's response to the original consultation and implementation of the amendment regulations which was postponed to 1 October 2023. A further consultation is expected after the England and Wales May 2023 elections.

In preparation for rectification of member benefit entitlements, we've:

- Assigned a Project Manager
- Received data from employers with less than 100 active members
- Are in the process of issuing data requests to employers with over 100 active members
- Recruited new Trainee Pensions Administrators to ensure we have sufficient resources to deal with both remedy and current workloads
- Acquired a data validation tool to analyse employer responses
- Continued to receive updates to our pensions administration software in respect of calculations
- Ensured we're aware and alert to any emerging national guidance from the Local Government Association
- Continued engagement with the other Scottish LGPS administering authorities.

PERFORMANCE AND ADMINISTRATION

Member service

Our in-house pension administration team provides a dedicated service for the pension fund members. We monitor the time taken to complete our procedures. Key procedures include: processing of retirement and dependent benefits; providing information for new members; and transfers and retirement quotes. Our non-key procedure measure incorporates other pension administration measures, for example: aggregation (joining two periods of membership together); recalculation of pension benefits due to a backdated pay award; and updating member details (bank details, marital status) and so on. During the year we identified that our non-key workload was experiencing a backlog. As we were comfortable that our critical and key performance measures were in an overall stable position, the team continued to target non-key work. This allowed us to maintain overall levels of member satisfaction whilst keeping in mind the importance of maintaining our critical and key measures.

Despite the challenging environment, 97.88% of key procedures in 2022/23 were completed on target.

PERFORMANCE AND ADMINISTRATION

The table below shows performance against key procedures in 2022/23.

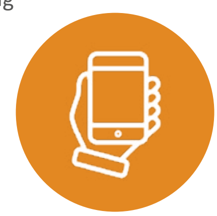
2021/22		Target	2022/23
97.4%	Proportion of critical pensions administration work completed within standards – individual performance within this indicator are shown below	Greater than 92%	97.9%
97.7%	Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	91%	99.7%
98.7%	Pay lump sum retirement grant within seven working days of receiving all the information we need from the member	96%	98.3%
95.6%	Acknowledge of the notification of the death of a member to next of kin within five working days	96%	97.4%
100%	Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	96%	100%
94%	Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service	91%	97.4%
79.1%	Proportion of non-key procedures completed within standard including Additional Regular Contributions, responding to member communications, updating nominations and maintaining the member database	75%	75.8%
93.5%	Notification of dependant benefits within five working days of receiving all necessary paperwork	96%	96.5%
98.8%	Payment of CETV within 20 working days of receiving all completed transfer out forms	96%	97.2%
93%	Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider	96%	98.1%
94%	Notify members holding more than three months, but less than two 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%	96.7%
99.2%	Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form	91%	98.5%
99.7%	Estimate requested by employer of retirement benefits within 10 working days	91%	100%
97.1%	Pay any lump sum death grant within seven working days of receipt of the appropriate documentation	96%	99.4%

PERFORMANCE AND ADMINISTRATION

Online services

We continue to encourage members to visit the website and access the online service. 51.4% of all members have registered for My Pension Online and for active members, this figure rises to 58.0% using the service. To increase this, we've worked with employers to obtain email addresses where these aren't held.

We've made further enhancements to our online services in the last 12 months, giving members the option to complete their retirement online. This was initially introduced for active members retiring voluntarily and deferred members and we've been really encouraged by the uptake, with 74.4% of active members and 84.2% of deferred members requesting payment of their benefits online. We'll look to make further improvements during the coming year to allow active members retiring through redundancy or ill-health to complete the process online.



Members leaving after less than two years' membership can also now claim their refund of contributions online. Since this was launched in October 2022, 64% of members who received payment of a refund requested this through the online service.

In addition to these improvements, we have also partnered with Crown Agents Bank to provide our overseas pensioners with a digital means to carry out the annual existence check exercise. The existing process required members to attend a Western Union bureau with photographic ID or complete a Proof of Life Certificate and have it countersigned by an appropriate person. The new process allows members to complete the process from home, using digital facial authentication, by uploading a photo of themselves and of their photographic ID. The option to use a Proof of Life Certificate is still available.

Following a successful trial with a small group of members, we rolled out the process to all overseas members in October 2022. In total, 381 members completed the exercise, and of those, 335 (or 88%) did so using the digital method.

Our current website went live in March 2022 and provides a single integrated platform, which allows development of further online services. We continually review and update the website to ensure information is accurate and provide information on changes we've made to our processes, as a result of complaints, as well as our service and performance standards.

Our employers also use a variety of digital services including providing monthly contribution returns via a secure transfer portal and allowing data to be automatically uploaded to the pension software system. This has significantly improved the provision of employer data, allowed automation of tasks, and considerably simplified the year end processes. We now receive member specific documents through i-Connect rather than Go Anywhere. This reduces risk as the document is automatically uploaded onto the member's record.

PERFORMANCE AND ADMINISTRATION

Protecting members from transfer scams

The Pensions Act 2021 introduced two new conditions to be satisfied before a member's pension could be transferred to another scheme.

The first is that the scheme receiving the transfer must either be a Public Sector pension scheme or a Master Trust or Collective Money Purchase scheme named on The Pension Regulator's (TPR's) approved list. If this condition isn't met, the transferring scheme has to check for any red or amber flags before we can proceed with the transfer. Where red flags are present, the transfer must be cancelled, while the member should be referred to MoneyHelper if there are any amber flags.

Red flags include that the member requested the transfer as a result of unsolicited contact or was offered an incentive to transfer. Amber flags include where the member couldn't provide evidence of a link to the new pension scheme (e.g. that they work for an employer that is part of the scheme) or where the new scheme's charges or investment structure are unclear.

We've now reviewed all our transfer procedures to make sure that we identify any of these flags and refer the member to MoneyHelper, when needed, to protect our members from pension scams.

AVC "Nudge"

New regulations introduced in June 2022 mean that members over the age of 50 who've been paying Additional Voluntary Contributions (AVCs) need to take additional steps before they can do anything with their AVC fund. This is known as a 'Stronger Nudge to Pensions Guidance' and provides further protection to members by helping them make an informed decision about what to do with their AVC fund.

We've now updated our processes and relevant documents. When a member applies to take payment of their AVCs alongside their main pension, or transfer them to access through another Defined Contribution scheme, they need to either take guidance from Pension Wise to ensure they make an informed decision or tell us that are opting out of taking this guidance. Members can make an appointment with Pension Wise themselves or ask us to do it for them, but they need to provide evidence that they have received guidance, or confirm in writing that they've opted out.

COLLEAGUE PROFILE MARK DOBBIE, PORTFOLIO MANAGER

Mark joined LPF in August 2022 as a Portfolio Manager in the equities team. He's responsible for managing one of our in-house global equity strategies and supporting the implementation of the Fund's wider equities investment strategy. Mark says:

"I'm proud to be part of an organisation that has such a clear focus on delivering positive outcomes for our many members. Working alongside a friendly, talented and dedicated team makes this all the more rewarding."

PERFORMANCE AND ADMINISTRATION

Employer performance

The Pensions Administration Strategy sets out the roles and responsibilities of both the Fund and employers, specifying the levels of services the parties will provide to each other, and referring to four key areas where the Fund will pass on the costs of poor performance from employers:

- Late payment of contributions
- Late submission of membership information at the end of the year
- Failure to supply the Fund with information required to provide members with pensions savings statements
- Failure to provide details of member contributions monthly.

These areas are particularly important to ensure compliance with legislation, including accurate data to administer the career average pension scheme, and the requirement to provide members with a pension forecast by 31 August each year. Charges for late payment of contributions are as stated in the Scheme Regulations, whilst other recovery of costs has been set to reflect the additional time spent in resolving queries and pursuing late information.

WHAT OUR MEMBERS SAY:

"I didn't realise it was so easy to upload documents to my pension online i.e., forms and passport. I will encourage my co-workers to do the same. Everyone on the phones were helpful."

PERFORMANCE AND ADMINISTRATION

Since the strategy was introduced, provision of early leaver and retiral information from employers has been well below the expected standard. During 2022/23, our officers took a variety of approaches to improve employer performance, including:

- Providing training to payroll/HR colleagues via Microsoft Teams
- Presenting performance updates at virtual meetings
- Escalating to senior officers at annual employer meetings
- Monitoring with employers where performance has been particularly poor.

To improve service to members, indirect costs can now be recovered from an employer if any persistent and ongoing administration failures occur, with no improvement demonstrated, or if they're unwilling to resolve the identified issues.

We monitor employer performance against the standards set out in the Pension Administration Strategy. Results are reported to employers in an annual performance report, with more regular reporting for larger employers.

Overall employer performance for 2022/23 is shown below, with 2021/22 shown for comparison purposes.

		2021/22			2022/23		
Case type	**Target (working days)**	**Number received**	**Number within target**	**% within target**	**Number received**	**Number within target**	**% within target**
New members	20	6,099	5,335	87%	7,553	6,979	92%
Leavers	20	3,529	2,074	59%	4,575	2,609	57%
Retirements	20	1,425	544	38%	1,450	517	36%
Deaths in Service	10	32	20	63%	15	5	33%

PERFORMANCE AND ADMINISTRATION

All employers are now submitting new starters through i-Connect which has improved the performance this year. We expect further improvement next year with only exceptional cases not being met in target.

Whilst the provision of leaver information has improved, a high percentage are still being received out of target. One of our largest employers identified a high amount of historical cases and this has impacted the Fund result negatively. We continue to provide missing leaver queries to employers on a monthly basis, and our year end process helps identify historical cases to employers which require urgent attention.

Most retirement information continued to be provided out of target. Similar to last year, just over a quarter of retirements out of target are received between 10 and 19 days before the member's retirement date, but just over 40% are received after the member's retirement date.

Employer	Number of late payments	Employer	Number of late payments
Scotland's Learning Partnership	6	Bellrock	1
Dacoll	1	Edinburgh Leisure	1
Edinburgh Development Group	1	Heriot-Watt University Students Association	1
Pilton Equalities Project	1	Scottish Futures Trust	1
TOTAL			**13**

Contributions by value paid on time

99.8% of contributions by value were paid on time. Of the 777 payments made, 13 were paid late and these are shown in the table. The option to levy interest on overdue contributions was not exercised in 2022/23 as late contributions weren't received significantly later than the 19th day.

OUR COLLEAGUES

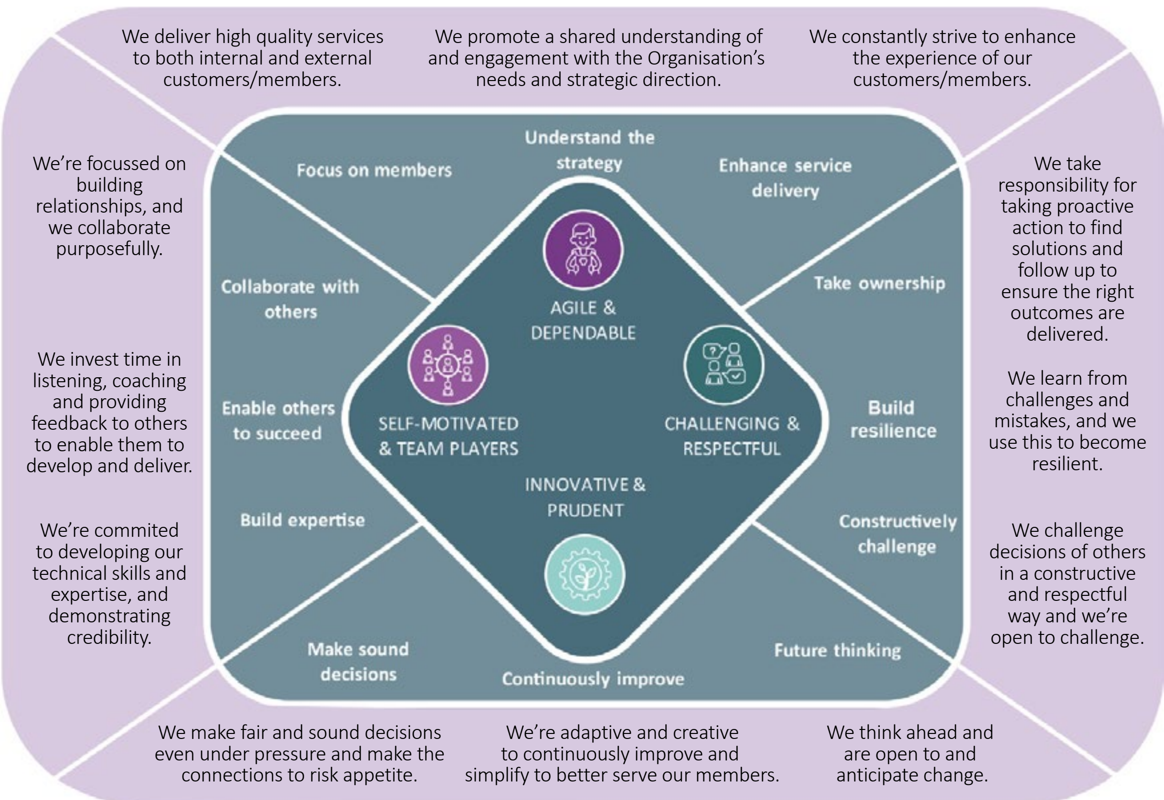
Our colleagues

Engaging our colleagues is critical to delivering our strategy and ambition. We firmly believe that having happy and motivated colleagues helps us deliver for our members, employers and stakeholders.

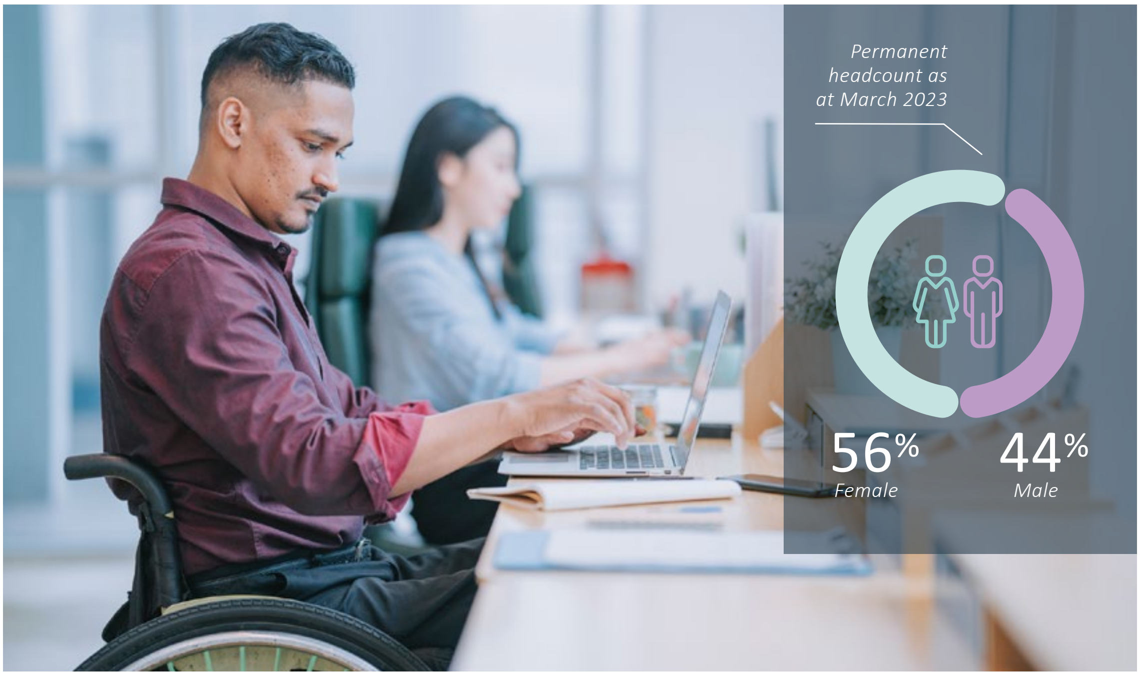
Our core values

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

- **Agile and dependable**
  We approach work with an open and flexible attitude and take responsibility to manage our work effectively and efficiently. We also embrace new processes in a consistent and reliable way.
- **Self-motivated and team players**
  We actively participate as individuals, taking pride and responsibility in what we do. At the same time, we show awareness for the team and ensure our objectives support the team's objectives.
- **Challenging and respectful**
  We appreciate the need to challenge status quo and ask questions in a constructive and respectful way.
- **Innovative and prudent**
  We always look to improve processes and practices and ensure we do this in a way that's safe and protects LPF from unnecessary risk.



OUR COLLEAGUES



Inclusivity

We're one team, but we represent many ideas, experiences and backgrounds. We value everyone's contributions and believe that our colleagues should be their whole self at work. We want a diverse, inclusive and respectful workplace and this will be achieved by driving a positive environment. As at 31 March 2023 our permanent headcount was 56% female and 44% male.

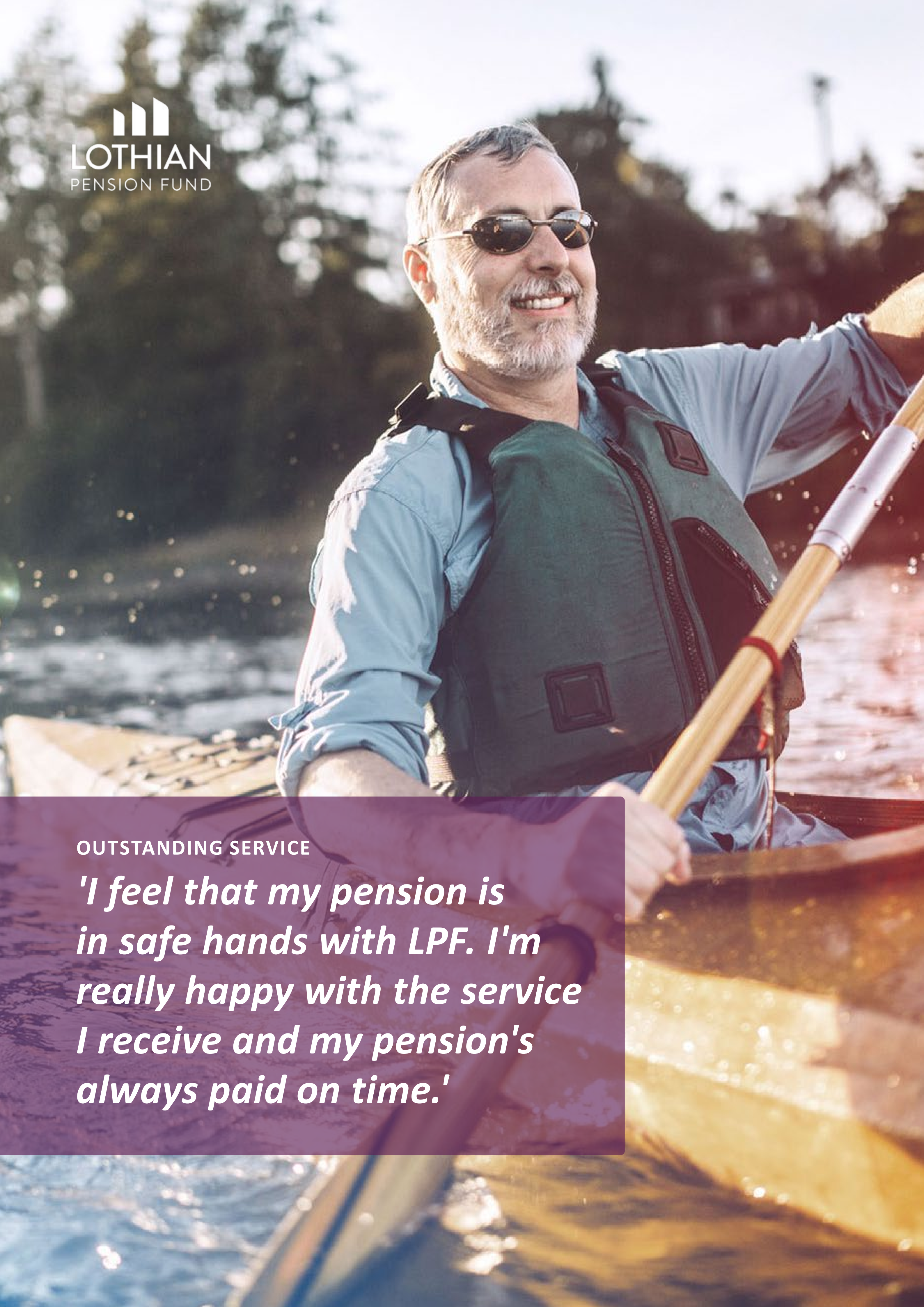
We recognise the many strengths and talents our diverse colleagues bring to the workplace so we're taking steps to make sure that LPF is as inclusive as possible for both our colleagues and members:

- In 2019, we signed up to Disability Confident and more importantly, committed to review and improve everything we do with respect to recruitment and employment
- Through Disability Confident, we'll work to ensure that disabled people and those with long term health conditions can fulfil their potential and realise their aspirations with us as an employer
- We're proud to be one of the first firms in Scotland to partner with Future Asset and offer work experience placements for senior school girls. Future Asset aims to raise aspirations and confidence in girls in S4-S6, encouraging them to choose ambitious career paths, and informing them about rewarding opportunities in investment
- We've joined several organisations supporting the Scottish launch of a nationwide initiative focussed on increasing diversity and inclusion in the asset management, professional services, and financial services industries
- We continue our work on the Scotland chapter of the Diversity Project, which aims to accelerate progress toward a more inclusive culture in the investment and savings sectors across all demographics, including gender, ethnicity, sexual orientation, age and disability.

disability confident

FUTURE ASSET

DIVERSITY PROJECT
BUILDING INCLUSION IN INVESTMENTS & SAVINGS


LOTHIAN
PENSION FUND
OUTSTANDING SERVICE
'I feel that my pension is in safe hands with LPF. I'm really happy with the service I receive and my pension's always paid on time.'

OUR COLLEAGUES

Gender balanced

We continue to work towards our goal of being fully gender balanced across the organisation by 2030.

- As at 31 March 2023 we have, on aggregate, 58% women in our top three leadership layers and across the whole company, 56% of our workforce are women
- Our mean gender pay gap is 20.6%
- Our positive action approach for gender, which is benchmarked externally, is helping to ensure that our people policies and processes are inclusive and accessible, from how we attract and recruit, to how we reward and engage our colleagues
- In 2022/23 we recruited 26 colleagues; 58% of these were women.

Performance and reward

Our approach to performance management provides clarity for our colleagues about how their contribution and performance links to our vision and values. We're transparent with our pay structures to ensure our colleagues understand that they're paid fairly for their performance in line with industry best practices.

We make sure that colleagues have a common awareness of the financial and economic factors affecting LPF's performance through monthly all colleague calls and biannual events. More information on our remuneration policies and employee share plans can be found later in this document.

In October 2022 we awarded a large proportion of our colleagues with a £1,500 (pro rata) salary increase. This out of cycle increase was in addition to the usual annual pay review and was to support them with the cost-of-living crisis.

Developing skills and capabilities culturally

Becoming a learning organisation is one of our priorities. We ensure that colleagues have the required skills and qualifications to perform their roles and prepare them for the future. We're committed to developing colleagues in key areas we've identified that will help build the right knowledge, skills, and behaviours to help them stay relevant and employable and support our ambition and purpose. In addition, we're encouraging agility and shifting mindsets so that a focus on the future, continuous learning, knowledge-sharing and reflective practice becomes the norm.

OUR COLLEAGUES

The Scottish Government and Scottish Funding Council launched the Flexible Workforce Development Fund in 2017. The academic year 2020-21 was the first year that the funding was made available to small and medium sized enterprises to support with the upskilling and reskilling of workforces, address skills gaps and contribute to recovery from the Covid-19 pandemic. We worked closely with Edinburgh College to create a bespoke management training programme devised to upskill our management population. We secured the funding again in 2022 and were able to roll out the same programme to our new managers to ensure everyone had the same opportunities and skills to successfully perform in their roles. The programme was rolled out over a series of half day sessions for our management population and focussed on performance management, difficult conversations, assertiveness skills, effective leadership and leading and motivating teams.

In September 2022 customer service and complaint handling training was delivered to our customer facing colleagues. The customer service training helped develop colleagues' awareness of the personal skills, attitudes and behaviours that influence the customer experience. The complaint handing training helped individuals take personal responsibility for customer service and allows them to handle customer complaints effectively.

In December 2022 our managers and senior administrators attended training on coaching for performance. The aim of this training was to: provide them with the tools and techniques required to carry out different styles of coaching; be able to undertake effective coaching conversations and coaching sessions; and coach colleagues to improve performance.

Investing in colleagues

In 2022 we procured a new human resource information system (HRIS) which would integrate our people, learning and payroll system into one application and improve our efficiencies and data analysis. The new HR system was implemented on 9 January 2023 and our upgraded learning management system went live on 16 January. We now have an online performance management process and all colleagues have recorded their 2023 performance goals.

The new systems have been well received by our colleagues, so we'll continue to build on the functionality of both systems over the coming months to make sure our colleague experience remains positive.

Our digital e-learning platform, Compliance Serve, gives our colleagues the opportunity to expand their own development as well as complete our quarterly core learning. This platform allows us to regularly report on our company learning targets and our colleagues can record all their continued professional development (CPD) in one place. As at 31 March 2023, 100% of our colleagues had completed their 20 hours of annual CPD.

Health and wellbeing

We firmly believe that colleague wellbeing is linked to a successful and happy workforce. All colleagues have access to our free Employee Assistance Programme which offers help and advice on topics like health, legal, finance and lifestyle.

We take our colleagues' wellbeing very seriously and to support this, we continue to develop our suite of Moments that Matter documents focusing on mental health, physical health, financial health, relationships, and life changing events. These documents are aimed to help colleagues and managers recognise signs and symptoms of wellbeing concerns and where to find help and support. They're also available to our members on our new website www.lpf.org.uk.

We also run weekly virtual WorkFit fitness classes to help keep our colleagues healthy and moving.

OUR COLLEAGUES

Throughout 2022 we held various sessions focusing on wellbeing. During Mental Health Awareness Week, we planned daily activities to promote metal health and we invited an external speaker to talk about building personal resilience and taking care of our mental health during challenging times.

During Pride month we raised awareness of the current issues facing the LGBTQA+ community by sharing key messages with the team and suggesting ways for everyone to get involved. We sponsored the Edinburgh Pride march in Edinburgh on its 25th anniversary and the first since 2019.

On Mental Health Day, we welcomed Therapet dogs into the office to show the benefits of having pets as companions and they talked about the good work they do in education.

Charity days

During 2022 several teams across the organisation completed various charity days to help support our local communities. The teams carried out a variety of activities including painting and gardening to support the local community as well as sorting and packing clothes for Kids Love Clothes.

Management commentary approved by:

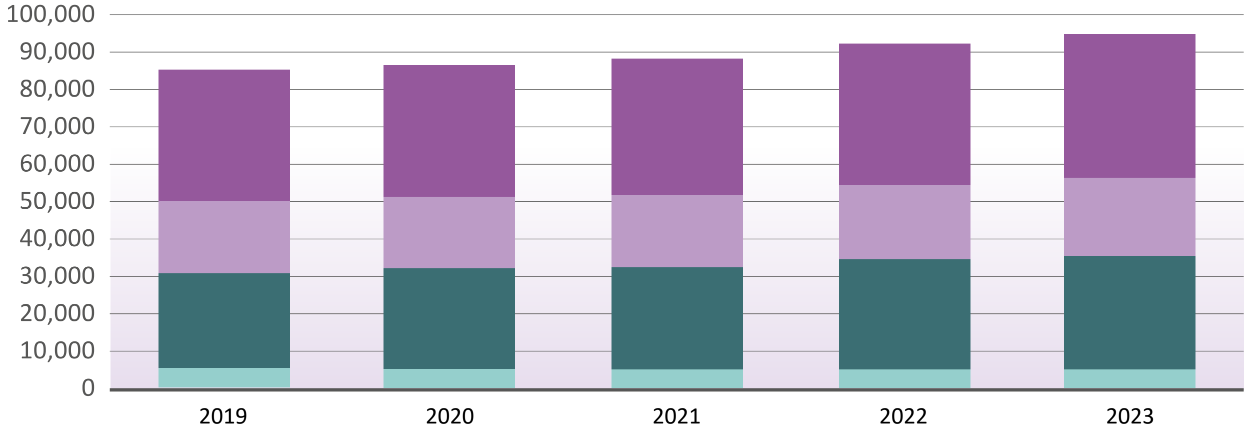
Andrew Kerr
Chief Executive Officer
The City of Edinburgh Council
27 September 2023

David Vallery
Chief Executive Officer
Lothian Pension Fund
27 September 2023

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
27 September 2023

LOTHIAN PENSION FUND INVESTMENT STRATEGY

LOTHIAN PENSION FUND MEMBERSHIP DATA



	2019	2020	2021	2022	2023
Active	35,014	35,874	36,149	37,207	37,614
Deferred	19,094	19,098	19,049	19,832	20,427
Pensioner	25,627	27,091	27,843	28,870	29,800
Dependant	4,199	4,229	4,173	4,161	4,155

Investment strategy

The Fund's current investment strategy was approved by the Pensions Committee in June 2021.

The objective of the Fund's investment strategy is the achievement of the discount rate, the return that the actuary prudently assumes will pay pensions as they fall due and will also be consistent with affordable and stable employer contribution rates.

The Fund's investment strategy reflects the duration of its liabilities, the pensions it will pay in the future. For most employers, these liabilities stretch decades into the future. Consequently, the strategy allocates a substantial portion of the Fund to assets that are expected to grow in real terms over the long term, such as equities. However, given that these types of assets are volatile, and that the future is uncertain, the strategy includes other asset types to diversify risk. The macroeconomic backdrop also influences the formation of the investment strategy and its implementation and, given the more inflationary environment than that of recent years, this supports the emphasis on real assets that have a history of protecting investors from the worst effects of inflation.

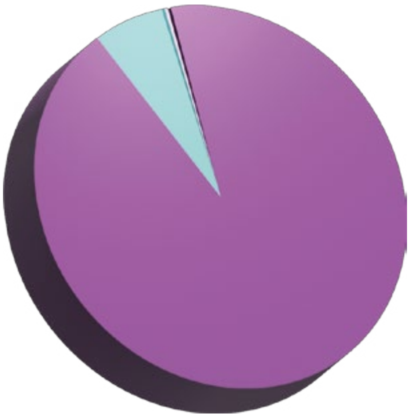
There were no changes to fund strategy over the year to end March 2023. The Total Fund Strategy percentages shown below are a weighted average of the employer strategies. Movements in the relative size of these strategies has resulted in modest changes to the Total Fund Strategy weightings.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Employer strategies

Lothian Pension Fund is a multi-employer pension scheme and not all employers are alike. To address their differing funding requirements the Fund operates four distinct investment strategies. The assets in each strategy are shown in the table below. Employers fund their liabilities with the strategy that reflects their ability to tolerate risk.

EMPLOYER GROUP STRATEGIES 31 MARCH 2023



Main Strategy **94.1%** (£9,075m)

Buses Strategy **5.3%** (£513m)

50/50 Strategy **0.4%** (£37m)

Mature Employer Strategy **0.1%** (£15m)

TOTAL WEIGHT 100%
TOTAL ASSETS 9,701 (£m)

Employers fund their liabilities with the strategy that reflects their ability to tolerate risk within an appropriate time horizon, considering the maturity of their liabilities.

Most employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy, aiming to generate an investment return that will minimise the cost to the employer within reasonable and considered risk parameters. The Main Strategy maintains significant exposure to real investments, such as Equities and Infrastructure, which have a history of protecting and growing purchasing power.

A small number of employers are funded in the Mature Employer Strategy, which invests in a portfolio of UK index-linked gilts to reduce funding level and contribution rate risk as they approach exit from the fund. The liabilities funded by the Mature Employer Strategy represent approximately 0.2% of total liabilities.

The 50/50 Strategy enables another small group of less mature employers to fund liabilities with a 50/50 mix of the Main Strategy and the Mature Employer Strategy. The liabilities funded by the 50/50 strategy represent a further 0.4% of total liabilities.

The Buses Strategy, which was created when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund on 31 January 2019, is a 55/45 mix of the Main Strategy and the Mature Employer Strategy. The liabilities funded by the Buses strategy represent approximately 5.4% of total liabilities.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Policy groups

The investment strategies are described in terms of allocations to broad asset classes, or policy groups, which are the key determinants of risk and return. These policy groups are Equities, Real Assets, Non-Gilt Debt, LDI (Gilts) and Cash. Although individual investments within each group will have different risk and return characteristics, each policy group targets a long-term return in relation to the return from UK gilts. The return target provides perspective on the expected risk of each group in relation to Fund liabilities.

The table below presents the policy group target allocations of the four investment strategies at end March 2023 along with the total Fund strategy, which is the weighted average of the four employer strategies.

LOTHIAN PENSION FUND 31 March 2023	Main strategy	Mature Employer strategy	50/50 strategy	Buses strategy	Total Fund Strategy
Equities	60.0%	0.0%	30.0%	33.0%	58.3%
Real Assets	20.0%	0.0%	10.0%	11.0%	19.4%
Non-Gilt Debt	10.0%	0.0%	5.0%	5.5%	9.7%
LDI (Gilts)	10.0%	100.0%	55.0%	50.5%	12.5%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Numbers may not sum due to rounding

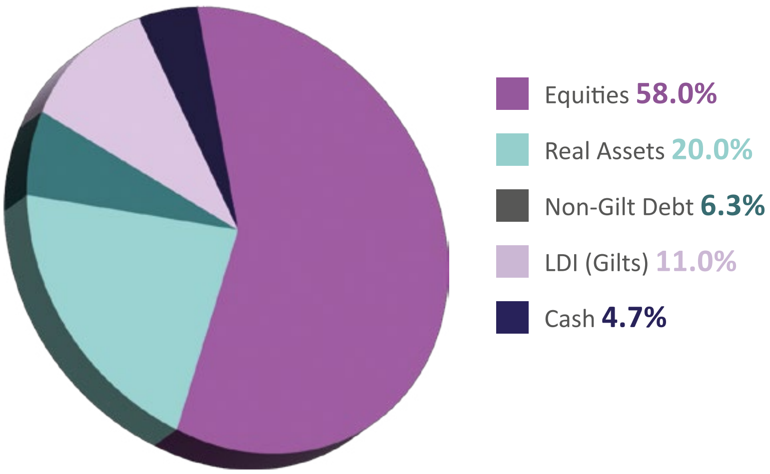
The LDI policy group comprises index-linked and nominal gilts. It does not use financial leverage, which caused some pension funds to become forced sellers of assets in the autumn of 2022. This is the lowest risk, lowest expected return policy group as it's possible to match the cash flows of gilts with the pension payments that the Fund expects to pay in the future. The purpose of the other policy groups is to generate a return in excess of the gilt return to make the Fund affordable to employers. The other policy groups, therefore, are expected to generate higher returns over the long term – the actuary models 20 years into the future. These higher returns come at the cost of higher risk or volatility.

Strategy implementation

The Pensions Committee delegates implementation of investment strategy to the Fund's officers, who are tasked with investing each policy group within specified ranges. These are laid out in the Statement of Investment Principles. The actual allocation at end March 2023 is presented in the pie chart below. The largest deviation from strategy is the overweight position in cash (+4.7%), which reflects continuing caution about the valuation of other assets, though is considerably lower than last year following recent opportunities to increase allocation to Real Assets and LDI at more favourable prices. Offsetting underweight positions are in LDI (or gilts) and Non-Gilt Debt. The Fund's exposure to Equity and Real Assets, which should help protect against inflation, is broadly in-line with target. The Fund has operated comfortably within the prescribed ranges over the year.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

ACTUAL ASSET ALLOCATION TOTAL FUND 31 MARCH 2023



Within policy groups, the Fund pays careful attention to risk taken to achieve returns and the cost of implementation. Within Equities, for example, the strategy typically avoids higher risk securities, meaning that its portfolio is lower risk than the benchmark. This has been the case for the last several years. One of the benefits of this approach is that it helps to maintain a low cost of implementation as turnover is generally quite low. Also contributing to a low cost of implementation is the internal management of just under 90% of equity assets.

The Real Assets policy group allocation has grown substantially over the last several years. The investments in this diverse category are comprised of (very largely UK) property, a wide range of infrastructure assets, including a variety of renewables, regulated utilities and other essential assets and timberlands. Again, there is a wide range of expected risk and expected returns associated with these types of private market assets. The Fund seeks long term, defensive investments with inflation protection or correlation, and expects returns and risk to be somewhat lower than those from the Equity policy group and for the assets to provide some diversification benefits.

The Non-Gilt Debt policy group comprises investments in various non-gilt debt securities. However, as its purpose in the Fund is to diversify equity risk, it eschews most high yield debt instruments, which are riskier and strongly correlated with equities. The Fund also invests in overseas sovereign bonds, which are included in this policy group.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment portfolio changes

The table below shows the changes to asset allocation over the year. They were relatively small and reflect both market movements and investment activity.

POLICY GROUP	Actual Allocation 31 March 2022	Actual Allocation 31 March 2023	Change %
Equities	58.5%	58.0%	-0.5%
Real Assets	17.3%	20.0%	+2.7%
Non-Gilt Debt	7.6%	6.3%	-1.3%
Gilts	8.5%	11.1%	+2.6%
Cash	8.1%	4.7%	-3.4%
Total	**100%**	**100%**	

Note: Numbers may not sum due to rounding

The Equity allocation is broadly unchanged over the last twelve months.

The Real Assets allocation increased during the year, primarily due to net new investment activity. In particular, new infrastructure investments were made throughout the year which offset distributions of income and capital for existing private market investments. The Fund continued to source new investments to achieve the target Real Asset allocation, and the real asset policy group was a net investor during the year.

The allocation to Non-Gilt Debt fell modestly over the year, mainly as a result of weak relative returns. In contrast, the exposure to LDI (or gilts) increased, despite weak returns. Having been underweight LDI for some time, the Fund took the opportunity to accelerate its hitherto gradual purchases of UK government bonds during the Truss government-induced market weakness in September/ October 2022.

The net result of the changes was a reduction in cash. The cash position twelve months ago was highlighted to be a temporary, defensive position which was supported by the Fund’s advisers. Some of this cash was utilised during the market dislocation in gilts referenced above, to purchase gilts at more attractive yields and move the Fund closer to the strategic target allocation.

There were no changes to investment strategy during the period; changes to Total Fund Strategy allocation weightings over the year were solely a result of movements in the relative size of the underlying strategies. The changes to actual asset mix, while more significant, were also relatively minor. The largest actual change was the reduction in cash which was used to increase the allocation to Real Assets and LDI.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment performance

The investment objective of the Fund is to achieve a return on assets sufficient to meet the funding objectives over the long term as outlined in the Funding Strategy Statement. In effect, the Fund aims to generate adequate returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.

This aim is translated into a strategic benchmark comprising a mix of assets, whose future returns are expected to approximate the required returns over the long term. The Fund is not expected to track the benchmark from year to year, but it does target a return broadly in line with its strategic benchmark allocation over the long term, with a lower-than-benchmark level of risk.

There are two main reasons why returns will deviate from the benchmark, particularly over shorter timeframes: portfolios aren't constructed to track listed market benchmarks, and private market benchmarks aren't readily available nor assets well suited to short term measurement.

The Fund’s performance over the last year and over longer-term timeframes is presented in the table below, both relative to the asset benchmark and with other relevant economic metrics. UK CPI and Average Weekly Earnings are both measures of inflation and Fund liabilities are, of course, linked to long term inflation. Both had grown at low and relatively stable rates for many years until recently.

Annualised returns to 31 March 2023 (% per year)	1 year	5 years	10 years
Lothian Pension Fund	0.3	6.3	8.3
Benchmark*	-14.6	4.5	6.9
Average Weekly Earnings (AWE)	4.9	4.3	3.5
Consumer Price Index (CPIH All Items)	8.9	3.8	2.6

**Comprises equity, ‘gilts plus’ and gilts indices*

COLLEAGUE PROFILE ABIGAIL FORTUNE, GRADUATE TRAINEE ACCOUNT

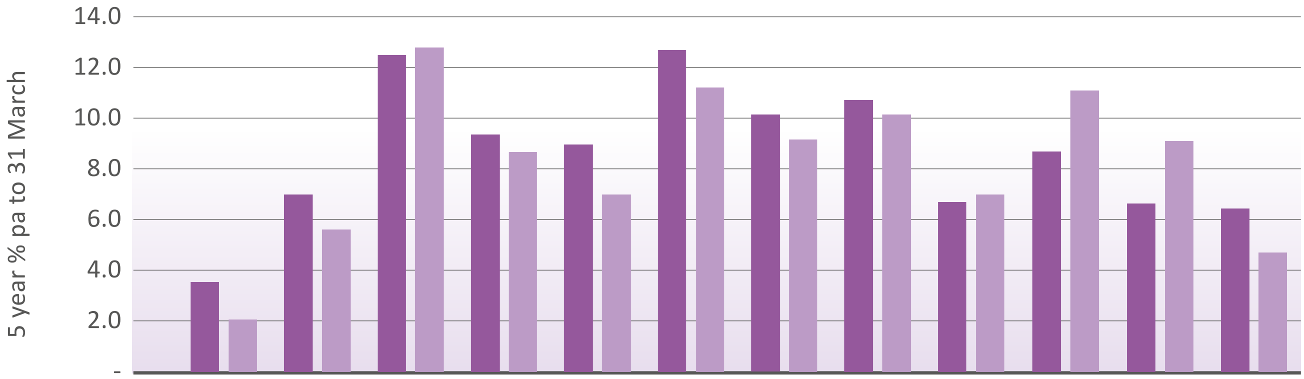
Abby joined us as a graduate trainee accountant in June 2019. Abby’s role involves carrying out a wide variety of financial analysis and control tasks across the Fund, while also working towards her professional accountancy qualification.

“As a graduate trainee accountant with LPF, I’ve valued the freedom to work across a wide variety of areas, which is something I likely wouldn’t have had in larger companies. I am currently working on the testing for our new finance system, the implementation of which will increase the finance team’s efficiency and improve workflows across the company.”

LOTHIAN PENSION FUND INVESTMENT STRATEGY

The following bar chart presents the underlying performance data in a long-term context. It shows rolling 5-year returns for the Fund, its asset-based benchmark, and the relative return. The historical record highlights that these numbers fluctuate meaningfully over time, and so caution is required when interpreting individual data points. It is important to remember that the objective of the Fund is to balance both risk and return. While the chart below looks solely at the return component, the table with policy group components (below the bar chart) adds the perspective of the risk taken to achieve those returns.

ANNUALISED 5 YEARLY RETURNS ENDING 31 MARCH (% PER YEAR)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund	3.6	7.1	12.7	9.5	9.1	12.9	10.3	10.9	6.8	8.5	6.5	6.3
Benchmark	2.1	5.7	13.0	8.8	7.1	11.4	9.3	10.1	7.1	11.8	8.6	4.5
Relative	+1.5	+1.4	-0.3	+0.7	+1.9	+1.5	+1.0	+0.8	-0.3	-3.2	-2.1	+1.7

While the chart above looks solely at the return component, the policy group table below adds the perspective of the risk taken to achieve those returns. It presents the Fund's risk and return over 1 and 5 years as calculated by its independent performance measurement provider. It breaks down the performance by policy group where available. Due to changes to the structure of the Fund, there are no meaningful 10-year numbers for the individual policy groups.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

The following table presents the Fund's risk and return over 1, 5 and 10 years as calculated by its independent performance measurement provider. It breaks down the performance by policy group where available. Due to changes to the structure of the Fund, only one policy group has meaningful 10-year data.

TO END MARCH 2023

POLICY GROUP	1 year (%)		5 year (% pa)		10 year (% pa)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	4.3	-1.4	8.4	9.7		
Real Assets	7.9	-36.6	7.5	-3.8		
Non-Gilt Debt	-3.7	-10.0	1.9	-0.5		
LDI (Gilts)	-38.6	-39.1	-6.7	-6.7	0.9	1.3
Total Fund Return	**0.3**	**-14.6**	**6.3**	**4.5**	**8.3**	**6.9**
Total Fund Risk*	**8.3**	**10.8**	**7.0**	**11.2**	**6.8**	**9.3**

**1 year predicted; 5 years ex-post (source: Portfolio Evaluation)*

The Fund produced an absolute return of +0.3% over the twelve months to end March 2023, which was notably ahead of the benchmark return of -14.6%. With risk below benchmark, it outperformed its long-term objective over the short 1-year timeframe.

Reasonable returns were achieved within Equities and Real Assets. The Fund's Equities gained 4.3% over the year, comfortably ahead of the global index (MSCI ACWI in GBP) return of -1.4%. Within the Real Assets category, the return of +7.9% was led by strength in both unlisted infrastructure (+19.6%) and timber & agriculture (+12.0%) investments.

Five-year returns were above benchmark at +6.3%pa vs +4.5%pa and over ten years the comparison was +8.3%pa vs +6.9%pa. In summary, over each of these time periods, Fund returns have been above benchmark.

On the risk side of the equation, the Fund has achieved its returns with notably lower levels of volatility than its benchmark (approximately 63% of benchmark risk over five years and 73% over ten years), so from a risk / return perspective the outcomes were notably better than expected over the 1, 5 and 10-year timeframes.

LOTHIAN
PENSION FUND

OUTSTANDING SERVICE

'I’m not tech savvy, but the colleague I spoke to over the phone was very helpful and guided me through the online process. I’m very grateful for their help.'

LOTHIAN PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2023

Financial statements

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included are employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

Lothian Pension Fund				Lothian Pension Fund	
Parent	Group			Parent	Group
2021/22	2021/22			2022/23	2022/23
£000	£000		Note	£000	£000
		Income			
198,944	198,944	Contributions from employers	4	201,867	201,867
53,201	53,201	Contributions from members	5	57,383	57,383
5,130	5,130	Transfers from other schemes	6	6,551	6,551
257,275	**257,275**			**265,801**	**265,801**
		Less: expenditure			
195,116	195,116	Pension payments including increases	7	206,225	206,225
51,043	51,043	Lump sum retirement payments	8	52,541	52,541
7,662	7,662	Lump sum death benefits	9	9,489	9,489
531	531	Refunds to members leaving service		845	845
-	-	Premiums to State Scheme		-	-
5,874	5,874	Transfers to other schemes	10	11,689	11,689
2,820	2,439	Administrative expenses	11a	3,202	1,088
263,046	**262,665**			**283,991**	**281,877**
(5,771)	**(5,390)**	**Net (withdrawals)/additions from dealing with members**		**(18,190)**	**(16,076)**
		Returns on investments			
276,010	276,010	Investment income	12	339,114	339,114
676,468	676,468	Change in market value of investments	14, 19b	(188,055)	(188,055)
(37,183)	(35,534)	Investment management expenses	11b	(44,942)	(39,595)
915,295	**916,944**	**Net returns on investments**		**106,117**	**111,464**
909,524	**911,554**	**Net increase in the fund during the year**		**87,927**	**95,388**
8,697,762	**8,693,689**	**Net assets of the fund at 1 April 2022**		**9,607,286**	**9,605,243**
9,607,286	**9,605,243**	**Net assets of the fund at 31 March 2023**		**9,695,213**	**9,700,631**

LOTHIAN PENSION FUND
NET ASSETS AS AT 31 MARCH 2023

This statement provides a breakdown of type and value of all net assets at the year end.

Lothian Pension Fund				Lothian Pension Fund	
Parent	Group			Parent	Group
31 March 2022	31 March 2022			31 March 2023	31 March 2023
£000	£000		Note	£000	£000
		Investments			
9,528,867	9,528,867	Assets		9,650,374	9,650,374
(4,466)	(4,466)	Liabilities		(9,386)	(9,386)
9,524,401	**9,524,401**	**Net investment assets**	**13**	**9,640,988**	**9,640,988**
		Non current assets			
13,061	13,061	Debtors	23	10,688	10,688
719	719	Computer systems		486	486
690	-	Share Capital	28b	690	-
-	-	Retirement benefit obligation	29	-	4,866
-	875	Deferred tax	28a	-	-
14,470	**14,655**			**11,864**	**16,040**
		Current assets			
3,870	3,870	The City of Edinburgh Council	27	2,311	2,311
68,241	69,098	Cash balances	20, 27	44,224	45,703
20,042	20,473	Debtors	24	21,221	21,891
92,153	**93,441**			**67,756**	**69,905**
		Non current liabilities			
-	(3,498)	Retirement benefit obligation	29	-	-
-	-	Deferred tax	28a	-	(213)
-	(14)	Creditors		-	(16)
-	**(3,512)**			**-**	**(229)**
		Current liabilities			
(23,738)	(23,742)	Creditors	25	(25,395)	(26,073)
(23,738)	**(23,742)**			**(25,395)**	**(26,073)**
9,607,286	**9,605,243**	**Net assets for the fund**		**9,695,213**	**9,700,631**

LOTHIAN PENSION FUND ACCOUNTS

The unaudited accounts were issued on 21 June 2023 and the audited accounts were authorised for issue on 27 September 2023.

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
27 September 2023

Notes to the net asset statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

The statement of accounting policies for all Funds can be found on page 147.

2 Lothian Pension Fund Group

Basis of consolidation, presentation of financial statements and notes
Commencing with the year ended 31 March 2018, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 - Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Because the controlled entities activities are primarily focused on the provision of services to the Fund, its consolidation has a limited impact on the figures included in the Fund Account and Net Assets Statement of Lothian Pension Fund. An additional column has been added in both the Fund Account and Net Assets Statement, with the figures prior to consolidation being identified as “Parent” and after consolidation as “Group”. In the notes to the accounts, where there is a difference between the parent and group figures they are identified as either “Parent “ or “Group”.

Notes	Description
27	Related party transactions and balances Describes transactions during the year and balances at year end which relate to the parent and the companies.
28a	Consolidated Lothian Pension Fund group - LPFE Limited - deferred tax Describes the deferred tax non-current asset of the Company. See 2 f) ii) in the Statement of Accounting Policies and General notes for more information.
28b	Consolidated Lothian Pension Fund group - LPFE Limited and LPFI Limited - share capital Describes the share capital of the Company.
29	Retirement benefits obligation - group Provides the information on the retirement benefits obligation of the Company as required under IAS19 - Employee Benefits. See 2 q) ii) in the Statement of Accounting Policies and General notes for more information.

The consolidation of the group accounts was prepared prior to the approval by the Boards of LPFE Limited and LPFI Limited their respective audited financial statements for 2022/23. The figures used in the consolidation are therefore from the unaudited financial statements of both companies.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

3 Events after the reporting date

There have been no events since 31 March 2023, and up to the date when these Financial Statements were authorised, that require any adjustments or disclosures to these Financial Statements.

4 Contributions from employers

The total contributions receivable for the administering authority, other scheduled bodies and admitted bodies were as follows:

	2021/22	2022/23
By category	**£000**	**£000**
Primary Contribution (future service)	180,554	195,628
Secondary Contribution (past service deficit)	5,433	5,399
Strain costs	3,209	705
Cessation Contributions	9,748	135
	198,944	**201,867**

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	71,515	75,947
Other Scheduled Bodies	95,937	104,123
Community Admission Bodies	30,123	20,190
Transferee Admission Bodies	1,369	1,607
	198,944	**201,867**

Employer contributions, as calculated by the Fund Actuary, comprise two elements:

- An estimate of the cost of benefits accruing in the future, referred to as the primary contribution rate previously referred to as the "future service rate", which is expressed as a percentage of payroll
- an adjustment for the solvency of the Fund based on the benefits already accrued, known as the secondary contribution rate. If there is a surplus, there may be a contribution reduction; if there is a deficit there may be a contribution increase. For all employers, contributions to cover any Past Service Deficit are expressed as a fixed monetary sum, rather than as a percentage of payroll and are payable on a monthly basis that is one twelfth of the annual total.

Where an employer makes certain decisions, which result in benefits being paid early, this results in a strain on the Fund. The resulting pension strain costs are calculated and recharged in full to that employer.

Any employer that ceases to have at least one actively contributing member is required to pay cessation contributions.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

5 Contributions from members

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	18,969	20,488
Other Scheduled Bodies	27,596	29,886
Community Admission Bodies	6,212	6,521
Transferee Admission Bodies	424	488
	53,201	**57,383**

6 Transfers in from other pension schemes

	2021/22	2022/23
	£000	**£000**
Group transfers	1,649	6,551
Individual transfers	3,481	-
	5,130	**6,551**

7 Pensions payable

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	84,339	87,871
Other Scheduled Bodies	91,909	98,401
Community Admission Bodies	18,537	19,537
Transferee Admission Bodies	331	416
	195,116	**206,225**

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows employers to pay additional pensions on a voluntary basis.

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. The use of a Fund bank account for these "unfunded transfer payments" is prohibited. Accordingly, for reasons of efficiency and simplicity, the pension payroll is combined and both funded and unfunded pension payments are made through a general fund bank account of the administering authority, City of Edinburgh Council. For the funded LGPS payments, the Fund transfers money from its own bank account to that of the City of Edinburgh Council's to cover the value of these benefits. For the unfunded payments, these are recharged to the employer body (or successor) which originally granted the discretionary benefits.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

As "unfunded payments" are discretionary benefits, they are not relevant to the sums disclosed in the Fund accounts. As such, Lothian Pension Fund provides payment and billing services to certain employers on a no charge agency agreement basis.

8 Lump sum retirement benefits payable

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	17,553	19,160
Other Scheduled Bodies	28,214	29,727
Community Admission Bodies	4,905	3,221
Transferee Admission Bodies	371	433
	51,043	**52,541**

9 Lump sum death benefits payable

	2021/22	2022/23
By employer type	**£000**	**£000**
Administering Authority	2,985	3,421
Other Scheduled Bodies	4,294	5,351
Community Admission Bodies	382	708
Transferee Admission Bodies	1	9
	7,662	**9,489**

10 Transfers out to other pension schemes

	2021/22	2022/23
	£000	**£000**
Group transfers	-	-
Individual transfers	5,874	11,689
	5,874	**11,689**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11a Administrative expenses

	LPF Parent 2021/22	LPF Group 2021/22	LPF Parent 2022/23	LPF Group 2022/23
	£000	£000	£000	£000
Employee costs	1,775	2,042	1,937	2,263
System costs	462	467	508	514
Actuarial fees	96	96	248	248
External/Internal audit fees	74	79	84	88
Legal fees	24	24	22	23
Printing and postage	158	158	119	119
Depreciation	81	81	108	108
Office costs	85	85	97	97
Sundry costs less sundry income	65	93	79	88
IAS19 retirement benefit adjustments - see note 29	-	(762)	-	(2,839)
Deferred tax on retirement benefit obligation - see note 28	-	65	-	369
Corporation tax	-	11	-	10
	2,820	**2,439**	**3,202**	**1,088**

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

COLLEAGUE PROFILE EMMA BURNS, GOVERNANCE OFFICER

Emma joined LPF in September 2022 as Governance Officer. Emma assists with the Governance of the scheme and helps to run the Pension Board and Committee. Emma says:

"From the very first day of joining the organisation I have received such a warm welcome and really appreciated the effort from colleagues in making me feel included and part of the team. The role is very busy, varied and interesting, with lots of opportunity to build knowledge and new skills."

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses

	LPF Parent 2021/22	LPF Group 2021/22	LPF Parent 2022/23	LPF Group 2022/23
	£000	£000	£000	£000
External management fees:				
invoiced	3,213	3,213	3,175	3,175
deducted from capital (direct investment)	23,772	23,772	24,525	24,525
deducted from capital (indirect investment)	827	827	606	606
Securities lending fees	81	81	107	107
Transaction costs - Equities	1,624	1,624	2,249	2,249
Property operational costs	1,770	1,770	7,164	7,164
Third party - Invest property service charge expense	5,964	5,964	8,266	8,266
Third party - Invest property service charge income	(5,964)	(5,964)	(8,266)	(8,266)
Employee costs	2,938	3,477	3,876	4,589
Custody fees	426	426	366	366
Engagement and voting fees	112	112	89	89
Performance measurement fees	98	98	117	117
Consultancy fees	110	110	86	86
Research fees	442	442	503	503
System costs	909	918	1,123	1,136
Legal fees	275	358	337	447
Depreciation	170	170	172	172
Office costs	127	127	153	153
Sundry costs less sundry income	289	(866)	294	(1,111)
IAS19 retirement benefit adjustments - see note 30	-	(1,253)	-	(5,525)
Deferred tax on retirement benefit obligation - see note 29	-	108	-	719
Corporation tax	-	-	-	-
Corporation tax gains utilised by CEC group	-	20	-	28
	37,183	**35,534**	**44,942**	**39,595**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

11b Investment management expenses (cont.)

	Total	Management /Expense fees	Performance related fee	Transaction costs
2022/2023	**£000**	**£000**	**£000**	**£000**
Bonds	109	109	-	-
Equities	5,321	3,079	(7)	2,249
Pooled investment vehicles	25,167	16,073	9,062	32
Property	7,164	7,164	-	-
Cash and FX contracts	65	65	-	-

	Total	Management /Expense fees	Performance related fee	Transaction costs
2021/2022	**£000**	**£000**	**£000**	**£000**
Bonds	109	109	-	-
Equities	5,249	3,506	119	1,624
Pooled investment vehicles	24,114	15,234	8,848	32
Property	1,770	1,770	-	-
Cash and FX contracts	45	45	-	-

Investment costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to both funds are allocated based on the value of the Funds as at the year end.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 14 - Reconciliation of movements in investments and derivatives).

The external investment management fees (deducted from capital) above include £9.1m (£9.1m direct) in respect of performance-related fees compared to £9m in 2021/22 (£8.9m direct, £0.1m indirect).

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

It should be noted that Lothian Pension Fund's disclosure on investment management fees exceed CIPFA's "Accounting for Local Government Pension Scheme Management Costs" revised guidance on cost transparency which came into effect from 1 April 2016. Consistent with previous years, the Fund recognises fees deducted from investments not within its direct control (such as fund of fund fees) to give a full picture of its investment management costs. Further details can be found in the "Investment management cost transparency" section of the Management Commentary. This further disclosure highlights an extra £0.6m in costs (2022 £0.8m).

11c Total management expenses

In accordance with CIPFA guidance, the analysis below considers the combined administration and investment management expenses in notes 11a and b and splits out the costs to include a third category covering oversight and governance expenditure.

	LPF Parent 2021/22	LPF Group 2021/22	LPF Parent 2022/23	LPF Group 2022/23
	£000	£000	£000	£000
Administrative costs	2,534	2,032	2,687	703
Investment management expenses	34,514	34,185	41,447	38,332
Oversight and governance costs	2,953	1,756	4,010	1,648
	40,001	**37,973**	**48,144**	**40,683**

JIM ANDERSON

"Having once again become chair of the Pension Board I wish to thank the Board members for their continuing support. The Board are key to providing 'oversight and assurance' and have been reassured by the efforts of the Fund. The Board has supported the Committee in its consideration of the investment strategy, governance, administration, communications, Project Forth and LGPS regulation changes. In addition, the Board reviewed operational improvements including the 'Members Self Service' [website] facility. The Board has worked tirelessly in its members interests in what was yet another challenging year."

Chair of the Pension Board

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12 Investment income

	2021/22	2022/23
	£000	£000
Income from bonds	4,586	7,645
Dividends from equities	168,743	192,831
Unquoted private equity and infrastructure	85,598	118,735
Income from pooled investment vehicles	2,805	2,507
Gross rents from properties	22,500	25,983
Interest on cash deposits	57	4,968
Stock lending and sundries	407	536
	284,696	**353,205**
Irrecoverable withholding tax	(8,686)	(14,091)
	276,010	**339,114**

Included within the dividend from equities income for the year is cross border withholding tax yet to be received. The Fund's custodian Northern Trust manages this process and due to the high certainty of success, it's assumed that the Fund will make full recovery of these reclaims. For the period of 2022/23 £8,041k of the stated income relates to tax yet to be received. At 31 March 2023 £29,014k (including prior periods) of investment income receivable related to cross border withholding tax. The Fund monitors these claims to ensure its optimum tax efficiency and provides an annual progress report to the Pensions Audit Sub-Committee.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

13 Net investment assets	31 March 2022	31 March 2023
Investment assets	**£000**	**£000**
Bonds		
Public sector fixed interest	157,498	243,549
Public sector index linked gilts quoted	957,545	1,198,067
	1,115,043	**1,441,616**
Equities		
Quoted	5,434,373	5,469,139
	5,434,373	**5,469,139**
Pooled investment vehicles		
Private equity, infrastructure, private debt & timber	1,344,172	1,711,625
Property	116,925	82,890
Other	203,941	177,904
	1,665,038	**1,972,419**
Properties		
Direct property	431,303	365,745
	431,303	**365,745**
Derivatives		
Derivatives - forward foreign exchange	-	2,549
	-	**2,549**
Cash deposits		
Deposits	837,138	341,424
	837,138	**341,424**
Other investment assets		
Due from broker	1,417	908
Dividends and other income due	44,555	56,574
	45,972	**57,482**
Total investment assets	**9,528,867**	**9,650,374**
Investment liabilities		
Derivatives		
Derivatives - forward foreign exchange	(2,375)	-
	(2,375)	**-**
Other financial liabilities		
Due to broker	(2,091)	(9,386)
	(2,091)	**(9,386)**
Total investment liabilities	**(4,466)**	**(9,386)**
Net investment assets	**9,524,401**	**9,640,988**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2022*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2023
	£000	£000	£000	£000	£000
Bonds	1,115,043	1,487,342	(882,212)	(278,557)	1,441,616
Equities	5,434,373	980,072	(985,504)	40,198	5,469,139
Pooled investment vehicles	1,665,038	392,099	(185,094)	100,376	1,972,419
Property	431,303	17,016	(6,437)	(76,137)	365,745
Derivatives - forward foreign exchange	(2,375)	7,468	(2,061)	(483)	2,549
	8,643,382	**2,883,997**	**(2,061,308)**	**(214,603)**	**9,251,468**
Other financial assets / liabilities					
Cash deposits*	837,138			26,512	341,424
Broker balances*	(674)			36	(8,478)
Investment income due*	44,555			-	56,574
	881,019			**26,548**	**389,520**
Net financial assets	**9,524,401**			**(188,055)**	**9,640,988**

** As per CIPFA disclosures the change in market value intentionally does not balance opening/closing market values.*

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14a Reconciliation of movement in investments and derivatives (cont.)

	Market value at 31 March 2021*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2022
	£000	£000	£000	£000	£000
Bonds	689,792	638,774	(228,844)	15,320	1,115,043
Equities	5,044,875	1,014,338	(1,127,432)	502,592	5,434,373
Pooled investment vehicles	1,615,521	240,695	(274,517)	83,339	1,665,038
Property	366,125	380	(7,982)	72,780	431,303
Derivatives - forward foreign exchange	625	24	(1,790)	(1,234)	(2,375)
	7,716,938	**1,894,211**	**(1,640,565)**	**672,797**	**8,643,382**
Other financial assets / liabilities					
Cash deposits*	933,452			3,717	837,138
Broker balances*	(87,278)			(46)	(674)
Investment income due*	33,602			-	44,555
	879,776			**3,671**	**881,019**
Net financial assets	**8,596,714**			**676,468**	**9,524,401**

** As per CIPFA disclosures the change in market value intentionally does not balance opening/closing market values*

14b Reconciliation of fair value measurements within level 3

	Market value at 31 March 2022	Level 3 transfers		Purchases at cost & derivative payments	Sale & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2023
Pooled investments	£000	in	out	£000	£000	£000	£000	£000
Infrastructure	932,043	-	-	317,032	(94,671)	118,858	25,455	1,298,717
Property	66,667	-	-	12,152	(36,883)	(27,131)	29,035	43,840
Private equity	43,835	-	-	(8)	(13,552)	(6,216)	8,606	32,665
Timber	107,614	-	-	27,910	(2,495)	(19,966)	(2,005)	111,058
Private debt	260,680	-	-	32,229	(32,508)	18,192	(9,409)	269,184
Freehold property	431,303	-	-	17,016	(6,437)	(76,137)	-	365,745
	1,842,141	**-**	**-**	**406,331**	**(186,546)**	**7,600**	**51,682**	**2,121,209**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

15 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2023.

Contract settlement within	Currency bought	Currency sold	Local currency bought	Local currency sold	Asset value	Liability value
			000	000	£000	£000
Up to one month	GBP	AUD	53,113	93,335	2,549	-
One to six months	CHF	USD	-	-	-	-
One to six months	USD	CHF	-	-	-	-
Open forward currency contracts at 31 March 2023					2,549	-
Net forward currency contracts at 31 March 2023						2,549

Prior year comparative

Open forward currency contracts at 31 March 2022	-	(2,375)
Net forward currency contracts at 31 March 2022		(2,375)

The above table summarises the contracts held by maturity date; all contracts are traded on an over-the-counter basis.

To maintain appropriate diversification of investments in the portfolio and take advantage of wider opportunities, the Lothian Pension Fund invests over half of the fund in overseas markets. A currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the extent to which the Fund is exposed to certain currency movements.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates

		Market value at 31 March 2022	% of total 31 March 2022	Market value at 31 March 2023	% of total 31 March 2023
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	UK all cap equities	265,832	2.8	295,441	3.1
In-house	UK mid cap equities	110,344	1.2	99,315	1.0
Total UK equities		**376,176**	**4.0**	**394,756**	**4.1**
In-house	European ex UK equities	250,266	2.6	202,168	2.1
In-house	US equities	359,548	3.8	372,923	3.9
Total regional overseas equities		**609,814**	**6.4**	**575,091**	**6.0**
In-house	Global high dividend	1,289,083	13.5	1,342,866	13.9
In-house	Global low volatility	1,285,006	13.5	1,272,317	13.2
In-house	Global multi factor value	1,177,932	12.4	1,196,232	12.4
In-house	Global quality	-	-	63,719	0.7
Harris	Global equities	132,500	1.4	138,204	1.4
Nordea	Global equities	351,784	3.7	329,513	3.4
Baillie Gifford	Global equities	178,332	1.9	170,952	1.8
Total global equities		**4,414,637**	**46.4**	**4,513,803**	**46.8**
In-house	Currency hedge	(2,374)	-	2,549	-
Total currency overlay		**(2,374)**	**-**	**2,549**	**-**
In-house	Private equity unquoted	43,946	0.5	32,744	0.3
In-house	Private equity quoted	123,673	1.3	75,720	0.8
Total private equity		**167,619**	**1.8**	**108,464**	**1.1**
Total equity		**5,565,872**	**58.6**	**5,594,663**	**58.0**
In-house	Index linked gilts	497,000	5.2	756,003	7.8
In-house	Nominal gilts	-	-	51,285	0.5
In-house	Mature employer gilts	316,605	3.3	262,748	2.7
Total gilts		**813,605**	**8.5**	**1,070,036**	**11.0**
In-house	Indirect property	116,925	1.2	82,890	0.9
In-house	Property	459,147	4.8	405,137	4.2
In-house	Infrastructure unquoted	932,043	9.8	1,298,717	13.5
In-house	Infrastructure quoted	28,666	0.3	24,845	0.3
In-house	Timber	107,614	1.1	111,058	1.2
Total real assets		**1,644,395**	**17.2**	**1,922,647**	**20.1**
Baillie Gifford	Corporate bonds	33,412	0.4	29,683	0.3
In-house	Private debt	260,680	2.7	269,185	2.8
In-house	Sovereign bonds	298,857	3.1	184,978	1.9
In-house	Investment Grade Credit	134,640	1.4	121,334	1.3
Total debt assets		**727,589**	**7.6**	**605,180**	**6.3**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Investment managers and mandates (cont)

		Market value at 31 March 2022	% of total 31 March 2022	Market value at 31 March 2023	% of total 31 March 2023
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	Cash	772,033	8.1	448,096	4.6
In-house	Transitions	907	0.0	366	0.0
Total cash and sundries		**772,940**	**8.1**	**448,462**	**4.6**
Net financial assets		**9,524,401**	**100.0**	**9,640,988**	**100.0**

Over the last two years no single investment represented more than 5% of the net assets of the Fund.

17 Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2023, £92.5m (2022 £167.6m) of securities were released to third parties. Collateral valued at 105.1% (2022 107.3%) of the market value of the securities on loan was held at that date.

18 Property holdings

	2021/22	2022/23
	£000	**£000**
Opening balance	366,125	431,303
Additions	380	17,016
Disposals	(7,982)	(6,437)
Net change in market value	72,780	(76,137)
Closing balance	**431,303**	**365,745**

As at 31 March 2023, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. As at 31 March 2023, the Fund had no contractual obligation for any further construction costs.

The property holdings were valued at fair value at year end using the investment method of valuation by CBRE Ltd in accordance with RICS Red Book Global Valuation Standards (introduced with effect from 31 January 2022).

The future minimum lease payments receivable by the Fund are as follows:

	2021/22	2022/23
	£000	**£000**
Within one year	19,702	20,158
Between one and five years	65,976	67,636
Later than five years	102,119	106,764
	187,797	**194,558**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19 Financial instruments

19a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund accounting records, hence there's no difference between the carrying value and fair value.

Classification of financial instruments - parent	31 March 2022			31 March 2023		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Investment assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	1,115,043	-	-	1,441,616	-	-
Equities	5,434,373	-	-	5,469,139	-	-
Pooled investments	1,665,038	-	-	1,972,419	-	-
Property leases	-	-	-	-	-	-
Derivative contracts	-	-	-	2,549	-	-
Margin balances	-	-	-	-	-	-
Cash	-	837,138	-	-	341,424	-
Other balances	-	44,555	-	-	57,482	-
	8,214,454	**881,693**	**-**	**8,885,723**	**398,906**	**-**
Other assets						
City of Edinburgh Council	-	3,870	-	-	2,311	-
Cash	-	68,241	-	-	44,224	-
Share Capital	-	690	-	-	690	-
Debtors - current	-	20,042	-	-	21,221	-
Debtors - non-current	-	13,061	-	-	10,688	-
	-	**105,904**	**-**	**-**	**79,134**	**-**
Assets total	**8,214,454**	**987,597**	**-**	**8,885,723**	**478,040**	**-**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Classification of financial instruments - parent (cont)	31 March 2022			31 March 2023		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Financial liabilities Investment liabilities	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Derivative contracts	(2,375)	-	-	-	-	-
Other investment balances	-	(674)	-	-	(9,386)	-
	(2,375)	**(674)**	**-**	**-**	**(9,386)**	**-**
Other liabilities						
Creditors	-	-	(23,738)	-	-	(25,395)
Liabilities total	**(2,375)**	**(674)**	**(23,738)**	**-**	**(9,386)**	**(25,395)**
Total net assets	**8,212,079**	**986,923**	**(23,738)**	**8,885,723**	**468,654**	**(25,395)**

	31 March 2022	31 March 2023
Total net financial instruments	**9,175,264**	**9,328,982**
Amounts not classified as financial instruments	432,022	366,231
Total net assets - parent	**9,607,286**	**9,695,213**

ANDY MCKINNELL

"Over the last five years I have provided guidance to the Pensions Committee and Pension Board in the exercise of their duties. The Independent Professional Observer role is an important one for LPF, as it strengthens LPF's oversight and governance arrangements, ensuring that its committee and pension board have access to independent expertise within a complex industry. It has been a pleasure to support both the Pension Committee and Pension Board to ensure that the best interests of LPF's members and employers remain the key driver for all the Fund's decision making. I will leave my role in September 2023 and wish LPF success going forward."

Lothian Pension Fund's Independent Professional Observer

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19a Classification of financial instruments (cont)

Classification of financial instruments - adjustments to parent to arrive at group	31 March 2022			31 March 2023		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Other assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash	-	857	-	-	1,479	-
Share capital	-	(690)	-	-	(690)	-
Debtors - current	-	430	-	-	772	-
Debtors - non-current	-	875	-	-	-	-
Debtors - non-current Retire. benefit obligation	-	-	-	-	4,866	-
	-	**1,472**	**-**	**-**	**6,427**	**-**
Assets total	**-**	**1,472**	**-**	**-**	**6,427**	**-**
-Other liabilities-						
Retire. benefit obligation	-	-	(3,498)	-	-	-
Creditors	-	-	(3)	-	(678)	-
Creditors - non current	-	-	(14)	-	(331)	-
Liabilities total	**-**	**-**	**(3,515)**	**-**	**(1,009)**	**-**
Total net assets	**-**	**1,472**	**(3,515)**	**-**	**5,418**	**-**
Total adjustments to net financial instruments			**(2,043)**			**5,418**
Total net assets - group			**9,605,243**			**9,700,631**

19b Net gains and losses on financial instruments

	2021/22	2022/23
	£000	**£000**
Designated as fair value through Fund Account	997,105	(138,466)
Loans and receivables	(11,464)	26,548
Financial liabilities at amortised cost	-	-
Total	**985,641**	**(111,918)**
Gains and losses on directly held freehold property	(16,405)	(76,137)
Change in market value of investments per fund account	**969,236**	**(188,055)**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19c Fair value hierarchy

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that isn't considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation isn't based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unquoted private equity, infrastructure, timber and European real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19C Fair value hierarchy (cont)

	31 March 2023			
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	£000	£000	£000	£000
Bonds	-	1,441,616	-	1,441,616
Equities	5,469,139	-	-	5,469,139
Pooled investment vehicles	27,093	189,861	1,755,465	1,972,419
Derivatives	2,549	-	-	2,549
Cash deposits	341,424	-	-	341,424
Investment income due	57,482	-	-	57,482
Non-financial assets at fair value through profit and loss				
Property	-	-	365,745	365,745
Total investment assets	**5,897,687**	**1,631,477**	**2,121,210**	**9,650,374**
Investment liabilities at fair value through Fund Account	**(9,386)**	**-**	**-**	**(9,386)**
Total investment liabilities	**(9,386)**	**-**	**-**	**(9,386)**
Net investment assets	**5,888,301**	**1,631,477**	**2,121,210**	**9,640,988**

	31 March 2022			
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	£000	£000	£000	£000
Bonds	-	1,115,043	-	1,115,043
Equities	5,434,373	-	-	5,434,373
Pooled investment vehicles	36,078	218,122	1,410,838	1,665,038
Derivatives	-	-	-	-
Cash deposits	837,138	-	-	837,138
Investment income due	44,555	-	-	44,555
Non-financial assets at fair value through profit and loss				
Property	-	-	431,303	431,303
Total investment assets	**6,352,144**	**1,333,165**	**1,842,141**	**9,527,450**
Investment liabilities at fair value through Fund Account	**(3,049)**	**-**	**-**	**(3,049)**
Total investment liabilities	**(3,049)**	**-**	**-**	**(3,049)**
Net investment assets	**6,349,095**	**1,333,165**	**1,842,141**	**9,524,401**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments

Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The Main investment strategy aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to employers. It achieves this by investing in a diverse range of assets to reduce risk to an acceptable level. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they're due to be paid.

Responsibility for the Fund's overall investment strategies rests with the Pensions Committee. The Joint Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Consideration of the Fund's investment risk is part of the overall risk management of the pensions operations. Risks are reviewed regularly to reflect changes in activity and market conditions.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall market risk of the Fund depends on the actual mix of assets and encompasses all the different elements of risk.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

The Fund manages these risks in a number of ways:

- Assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund
- Diversification of investments in terms of type of asset, investment styles, investment managers, geographical and industry sectors as well as individual securities taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which we invest
- Monitoring market risk and market conditions to ensure risk remains within tolerable levels
- Using equity futures contracts from time to time to manage market risk. Options are not used by the Fund.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table sets out the long-term volatility assumptions used in the Fund's asset-liability modelling undertaken by Isio investment advisers.

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.5%
Equities - Emerging Markets	28.0%
Private equity	26.0%
Timber and gold	18.0%
Secured loans	10.5%
Fixed interest Gilts	11.2%
Index-linked Gilts	11.8%
Infrastructure	12.0%
Property	13.0%
Cash	1.5%

Asset classes do not always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time.

The overall Fund benefits from "diversification" because it invests in different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests. The following table shows the risks at the asset class level and the overall Fund level, with and without allowance for correlation.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

	Value at 31 March 2023	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Equities - Developed Markets	4,968	51.5	20.5%	5,986.5	3,949.6
Equities - Emerging Markets	516	5.3	28.0%	660.0	371.3
Private equity	108	1.1	26.0%	136.7	80.3
Timber and gold	111	1.2	18.0%	131.0	91.1
Secured loan	420	4.4	10.5%	464.3	376.1
Fixed interest Gilts	51	0.5	11.2%	57.0	45.5
Index-linked Gilts	1,201	12.5	11.8%	1,342.9	1,059.5
Infrastructure	1,324	13.7	12.0%	1,482.9	1,165.1
Property	488	5.1	13.0%	551.1	424.3
Cash and forward foreign exchange	454	4.6	1.5%	460.3	446.7
Total [1]	**9,641**	**100.0**	**16.9%**	**11,272.8**	**8,009.4**
Total [2]			**13.0%**	**10,897.3**	**8,384.9**
Total [3]			**14.0%**	**10,992.0**	**n/a**

[1] No allowance for correlations between assets
[2] Including allowance for correlations between assets
[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme isn't measured in absolute terms, but relative to its liabilities [3].

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions, the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits, derivatives and securities lending are the major areas of credit exposure where credit risk isn't reflected in market prices.

Cash deposits

At 31 March 2023, cash deposits represented £380m, 3.92% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2023	Balances at 31 March 2022	Balances at 31 March 2023
Held for investment purposes		**£000**	**£000**
Northern Trust Global Investment Limited - liquidity funds	A2	9,439	9,673
Northern Trust Company - cash deposits	A2	494,418	54,715
UK Short-Term Bills and Notes	Aa3	160,901	130,016
The City of Edinburgh Council - treasury management	See below	162,690	139,838
Total investment cash		**827,448**	**334,242**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	68,241	44,224
JLL in-house property cash (Barclays)	A1	9,688	7,182
Total cash - parent		**895,689**	**378,466**
Cash held by LPFE/LPFI Limited			
Royal Bank of Scotland	A1	857	1,478
Total cash - group		**896,546**	**379,944**

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

	Moody's Credit Rating at 31 March 2023	Balances at 31 March 2022	Balances at 31 March 2023
Money market funds		**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	8,625	25,862
Goldman Sachs	Aaa-mf	6,034	859
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	18,614	6,644
Bank call accounts			
Bank of Scotland	A1	23,016	13
Royal Bank of Scotland	A1	1,045	6,851
Santander UK	A1	23	24
Barclays Bank	A1	12	13
Svenska Handelsbanken		13	8,467
HSBC Bank PLC	A1	2,590	8
Notice accounts			
HSBC Bank PLC	A1	20,422	4
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	103,035	27,636
Supranational Commerical Paper			
European Investment Bank	Aaa	17,758	-
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	29,744	107,681
		230,931	**184,062**

[1] Very few Local Authorities have their own credit rating, but they're generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2023 was 'Aa3').

The Council has in place institutional restrictions on investments and counterparty criteria. These include:

a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation
b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund
c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security, provided from maximum of £60 million/20% of assets under management (AUM) for institutions with the highest criteria to £10 million/5% of AUM for institutions with the lowest acceptable criteria.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund doesn't expect any losses from non-performance by any of its counterparties in relation to deposits.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Nature and extent of risk arising from financial instruments (cont)

Securities lending

The Fund participates in a securities lending programme as described in note 17 (p90). The Fund is potentially exposed to credit risk in the event of the borrower of securities defaulting. This is mitigated by the contractual commitment that borrowers provide collateral in excess of 100% of the value of the securities borrowed. In addition, Northern Trust has signed an agreement requiring it to make good any losses arising from the lending programme.

Derivatives

The Fund transacts foreign currency derivatives over-the-counter and hence is exposed to credit risk in the event of a counterparty defaulting on the net payment or receipt that remains outstanding. This risk is minimised by the use of counterparties that are recognised financial intermediaries with acceptable credit ratings and by netting agreements. At 31 March 2023, the Fund was owed £2,549k on over-the-counter foreign currency derivatives.

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund isn't bound by any obligation to replenish its investments so isn't exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund won't be able to meet its financial obligations as they fall due. The Fund therefore ensures that there's adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund’s cash flows.

The majority (estimated to be approximately 78% (2022 81%)) of the Fund’s investments could be converted to cash within three months in a normal trading environment.

21 Actuarial statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

22 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £6,971m (2022 £10,049m). This figure is used for statutory accounting purposes by Lothian Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS102/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2022	31 March 2023
	% p.a.	% p.a.
Inflation / pensions increase rate	3.2	3.0
Salary increase rate	3.7	3.5
Discount rate	2.7	4.8

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% per annum. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2022		31 March 2023	
	Male	Female	Male	Female
Current pensioners	20.3 years	23.1 years	19.9 years	22.9 years
Future pensioners (assumed to be currently 45)	21.6 years	25.0 years	21.2 years	24.7 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

23 Non-current debtors	LPF Parent 31 March 2022	LPF Group 31 March 2022	LPF Parent 31 March 2023	LPF Group 31 March 2023
	£000	£000	£000	£000
Contributions due - employers' cessation	13,061	13,061	10,688	10,688
	13,061	13,061	10,688	10,688

In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, "Funding Agreements" have been put in place to allow certain former employers to repay cessation valuation debt over longer terms (up to twenty years), to avoid potential default or insolvency.

The above debtors all relate to community admission bodies.

24 Debtors	LPF Parent 31 March 2022	LPF Group 31 March 2022	LPF Parent 31 March 2023	LPF Group 31 March 2023
	£000	£000	£000	£000
Contributions due - employers	15,222	15,222	16,211	16,211
Contributions due - members	4,091	4,091	4,407	4,407
Benefits paid in advance or recoverable	166	166	-	-
Sundry debtors	158	628	248	1,003
Prepayments	363	366	253	270
LPFE & LPFI Limited Loan facility - see note 27	42	-	102	-
	20,042	20,473	21,221	21,891

25 Creditors	LPF Parent 31 March 2022	LPF Group 31 March 2022	LPF Parent 31 March 2023	LPF Group 31 March 2023
	£000	£000	£000	£000
Benefits payable	9,386	9,538	10,498	10,498
VAT, PAYE and State Scheme premiums	934	1,064	906	1,575
Contributions in advance	11,193	11,193	11,819	11,819
Miscellaneous creditors and accrued expenses	1,679	1,763	1,850	2,014
Office - operating lease	152	152	129	129
Corporation tax losses utilised from CEC group	-	-	-	38
Intra group creditor - see note 28	394	-	193	-
	23,738	23,710	25,395	26,073

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

26 Additional voluntary contributions

Active members of the Lothian Pension Fund have the option to pay additional voluntary contributions (AVCs). These AVCs are invested separately from the main funds, securing additional benefits on a money purchase basis for those members that have elected to contribute. The investment of the AVCs is managed by Standard Life and Prudential.

In accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs aren't included in the pension fund financial statements.

	2021/22	2022/23
Total contributions during year for Lothian Pension fund	**£000**	**£000**
Standard Life	294	254
Prudential*	1,346	2,544
	1,640	**2,798**

	31 March 2022	31 March 2023
Total value at year end for Lothian Pension Fund	**£000**	**£000**
Standard Life	4,572	3,997
Prudential*	9,674	10,383
	14,246	**14,380**

**Figures provided are unaudited*

Prudential has been unable to supply contributions received data to the Fund for 2022/23, therefore total Prudential contributions shown above reflect the monthly contribution information provided by the Fund employers.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties

The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently, there's a strong relationship between the Council and the Pension Funds.

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2022	31 March 2023
	£000	£000
Year-end balance of holding account	3,870	2,311
	3,870	**2,311**

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2023, the fund had an average investment balance of £197.9m (2021/22 £222.9m). Interest earned was £3,857k (2021/22 £253k).

Year end balance on treasury management account

	31 March 2022	31 March 2023
	£000	£000
Held for investment purposes	162,691	139,838
Held for other purposes	68,241	44,224
	230,932	**184,062**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)

Scheme employers

All scheme employers to the Fund are (by definition) related parties, a full list of employers can be found on page 120. The employer contributions for the ten largest scheme employers are as follows:

	31 March 2022	31 March 2023
	£000	£000
City of Edinburgh Council	71,515	75,947
West Lothian Council	29,898	32,549
East Lothian Council	18,253	20,607
Midlothian Council	16,441	18,027
Scottish Water	10,543	11,419
Scottish Police Authority	6,781	7,010
Edinburgh Napier University	6,080	6,650
Heriot-Watt University	3,402	3,720
Audit Scotland	2,792	2,886
Edinburgh College	2,748	2,877
Weslo Housing Management	5,405	-
Hanover Housing Association	2,868	-

Governance

As at 31 March 2023, all members of the Pensions Committee and the Pension Board were members of the Lothian Pension Fund, with the exception of Richard Lamont and Tony Beecher. One member of both the Pensions Committee and the Pension Board is in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pension Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

During the period from 1 April 2022 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2022	31 March 2023
	£000	£000
Short-term employee benefits	909	1,281
Post-employment benefits - employer pension contributions	111	119

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Related parties (cont)

Key management personnel employed by LPFE had accrued pensions totalling £148,034 (1 April 2022: £134,724) and lump sums totalling £147,429 (1 April 2022: £131,304) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 179.

Remuneration of key management personnel employed by the City of Edinburgh Council is disclosed separately in the Financial Statements of the City of Edinburgh Council.

The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council. Since 2021 the two non-elected pension committee members also receive an honorarium of £2,250 per annum.

LPFE Limited & LPFI Limited – loan facility

LPFE & LPFI Limited are wholly owned by the City of Edinburgh Council as administering authority of Lothian Pension Fund, and have entered into a shareholder agreement with the Council to address governance matters. The companies have a loan facility agreement with the City of Edinburgh Council for the purpose of the provision of short-term working capital. The current agreement covers the period to 1 May 2023 and provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. In order to minimise the amount of interest payable, the companies return any cash not immediately required and this can result in short periods when the companies have returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Interest payable by LPFE Limited during the period was £3,313 of which £1,872 was due at the year end and for LPFI Limited their interest payable for the year was £1,913 of which £1,442 was due at the year end. At 31 March 2023, there was a zero balance on the loan facilities for LPFE Limited, and a £100,000 balance on the loan facilities for LPFI Limited.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund for the purposes of administering the Funds under a intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. During the year to 31 March 2023, the Fund was invoiced £6,076k (2022 £5,003k) for the services of LPFE Limited staff.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

28a Consolidated Lothian Pension Fund Group - LPFE Limited & LPFI Limited - deferred tax

Movement in deferred tax asset (Non-current asset)

	LPF Group 2021/22	LPF Group 2022/23
	£000	£000
Opening balance	1,047	875
Credit for year to Fund Account	(172)	(1,088)
Closing balance	**875**	**(213)**

Elements of closing deferred tax asset

	LPF Group 31 March 2022	LPF Group 31 March 2023
	£000	£000
Pension liability	875	(213)
	875	**(213)**

28b Shares in group companies - LPFE Limited & LPFI Limited

	31 March 2022	31 March 2023
	£	£
Allotted, called up and fully paid Ordinary shares of £1 each - LPFE Limited*	1	1
Allotted, called up and fully paid Ordinary shares of £1 each - LPFI Limited	690,378	690,378
	690,379	**690,379**

**One ordinary share of £1 was issued to Lothian Pension Fund at par value on incorporation. Due to the low value this does not show on the Net Assets Statement.*

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - Group

The retirement benefit obligation described in this note relates only to the employees of LPFE. This is because obligation in respect of the staff employed by the City of Edinburgh Council is accounted for in the Financial Statements of the Council.

On 1 May 2015, LPFE commenced trading and its staff transferred their employment from the City of Edinburgh Council to the Company on that date. At that time, the Company also entered into appropriate admission arrangements with the City of Edinburgh Council with respect to the transferring individuals continuing to be members of the Lothian Pension Fund and in relation to its obligations as an employer in that Fund.

The present value of the defined benefit obligation and related current and past service cost were measured using the Projected Unit Credit Method.

Fund assets

LPFE's share of the fair value of the Fund's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, was comprised as follows:

		Fair value at 31 March 2022	% of total 31 March 2022	Fair value at 31 March 2023	% of total 31 March 2023
Asset		**£000**	**%**	**£000**	**%**
Equity securities:	Consumer	2,016	12.0	2,195	12.0
	Manufacturing	2,168	13.0	2,468	14.0
	Energy and utilities	905	6.0	1,080	6.0
	Financial institutions	944	6.0	1,077	6.0
	Health and care	1,135	7.0	1,315	7.0
	Information technology	744	5.0	744	4.0
	Other	1,221	7.0	1,223	7.0
Debt securities:	Corporate Bonds	308	2.0	279	2.0
	UK Government	1,433	9.0	2,076	12.0
	Other	-	0.0	374	2.0
Private equity:	All	77	0.0	70	0.0
Real property:	UK property	866	5.0	806	5.0
	Overseas property	5	0.0	29	0.0
Investment funds and unit trusts:	Equities	294	2.0	252	1.0
	Bonds	767	5.0	518	3.0
	Infrastructure	1,661	10.0	2,552	14.0
Derivatives:	Foreign Exchange	1	0.0	1	0.0
Cash and cash equivalents	All	1,841	11.0	845	5.0
		16,385	**100.0**	**17,904**	**100.0**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Amounts recognised in the Net Assets Statement

	LPF Group 31 March 2022	LPF Group 31 March 2023
	£000	£000
Fair value of Fund assets	16,385	17,904
Present value of Fund liabilities	(19,883)	(13,038)
	(3,498)	**4,866**

Movement in the defined benefit obligation during the period

	LPF Group 2021/22	LPF Group 2022/23
	£000	£000
Brought forward	19,361	19,883
Current service cost	1,813	1,930
Past service cost	59	-
Interest cost on obligation	418	576
Fund participants contributions	279	343
Benefits paid	(67)	(124)
Actuarial losses arising from changes in financial assumptions	(1,894)	(10,309)
Actuarial losses arising from changes in demographic assumptions	(119)	(119)
Other actuarial losses	33	858
Balance at year end	**19,883**	**13,038**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Movement in the fair value of Fund assets during the period

	LPF Group 2021/22	LPF Group 2022/23
	£000	£000
Brought forward	13,848	16,385
Benefits paid	(67)	(124)
Interest income on Fund assets	293	464
Contributions by employer	716	814
Contributions by member	279	343
Other gains / (losses)	-	-
Return on assets excluding amounts included in net interest	1,316	22
Balance at year end	**16,385**	**17,904**

Amounts recognised in the Fund Account

	LPF Group 2021/22	LPF Group 2022/23
	£000	£000
Interest received on Fund assets	(293)	(464)
Interest cost on Fund liabilities	418	576
Current service costs	1,813	1,930
Past service costs	59	-
Employer contributions	(716)	(814)
Actuarial gain/(loss) due to re-measurement of defined benefit obligation	(1,980)	(9,570)
Return on Fund assets (excluding interest above)	(1,316)	(22)
Net cost recognised in Fund Account	**(2,015)**	**(8,364)**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29 Retirement benefits obligation - group (cont)

Principal actuarial assumptions used in this valuation	31 March 2022	31 March 2023
	% p.a.	% p.a.
Inflation / pensions increase rate	3.2	3.0
Salary increase rate	3.7	3.5
Discount rate	**2.8**	**4.8**

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there's an equal chance of actual experience being better or worse than the assumptions proposed.

The financial assumptions used for reporting in the financial statements are the responsibility of the employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of a similar magnitude. There's also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2022		31 March 2023	
	Male	Female	Male	Female
Current pensioners	20.3 years	23.1 years	19.9 years	22.9 years
Future pensioners	21.6 years	25.0 years	21.2 years	24.7 years

Expected employer contributions to the defined benefit plan for the year ended 31 March 2024 are £814k, based on a pensionable payroll cost of £4,499k.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

30 Contractual commitments

Investment commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the private debt and equity, timber, property and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, taking place over a number of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

	31 March 2022	31 March 2023
	£000	£000
Outstanding investment commitment	262,578	294,486
	262,578	**294,486**

Office accommodation - 144 Morrison Street, Edinburgh

The Fund is committed to making the following future payments.

	31 March 2022	31 March 2023
	£000	£000
Within one year	118	118
Between one and five years	355	355
After five years	311	193
	784	**666**
Recognised as an expense during the year	**95**	**95**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contingent assets and liabilities

Contribution refunds

At 31st March 2023, Lothian Pension Fund had £1,878k (2022: £1,659k) in unclaimed refunds due to members.

Co-investment deal abort costs

At 31 March 2023 the Fund had entered into negotiations for a private debt investment which it is exposed to the potential risk of investment abort costs. Lothian Pension Fund's exposure to this is approximately £2k.

Employer cessations

As stated in note 23, "In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, "Funding Agreements" have been put in place with certain former employers to repay cessation valuation debt". In exceptional circumstances, this includes "repayment of less than the cessation debt in order to avoid employer insolvency, with an appropriate agreement which allows the Fund to revisit the repayment of the remaining debt at a future date (i.e. the debt would be a contingent liability and hence not recognised on an employer's balance sheet); and seeking, where appropriate, suitable "anti-embarrassment" provisions in legal agreement covering future increase in employer asset values". At 31 March 2023, such contingent assets of the Fund totalled £3,622k and the fund has secured first ranking security over two employer property assets and second ranking security over a further two employer property assets.

EU Tax claims & income recovery

The Fund participates in various claims to recover withheld investment income. EU tax claims relate to the recovery of tax deducted from dividend payments prior to receipt or payable tax credits thereon. Claims with a value of £4.9m related to Manufactured Overseas Dividends have been removed from the outstanding claims. The remaining claims relate to "Fokus Bank". Given the high level of uncertainty as to the eventual success of such claims from EU tax authorities, no accrual of income is made in the financial statements. The value of these outstanding claims is approximately £5.4m. To date, the amount of tax recovered exceeds the cost of pursuing claims. Legal costs are shared across a pool of claimants and the Fund has the right to cease participation without incurring further costs. An annual progress report is provided to Pensions Audit Sub-Committee.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contingent assets and liabilities (cont)

Variable pay arrangements

In 2018/19 the company introduced three variable pay schemes, two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle staff to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 January to 31 December with the award then vesting over three years. The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met. Payment one for the 2022/23 year, payment two for the 2021/22 year and payment three for the 2020/21 year were made in January 2023. A liability has been raised at 31 March 2023 for the two months of service for the second and third instalment of 2022/23 and third instalment of 2021/22 which the employees have delivered with regards to the second and third payments in the scheme.

In the event that all the staff involved in the arrangements at 31 December 2022 remain in the company's employment there's a contingent liability of £511,423 in excess of the current and non-current liabilities, as recognised in these financial statements in accordance with IAS19. This amount would be payable over two years.

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019 a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 4 August 2020, the Scottish Public Pensions Agency (SPPA) issued a statutory consultation on the proposed remedy, with this closing in October 2020. As anticipated, it's proposed that a comparison will be made between the benefits payable under the current rules with the entitlements which would have been paid if the Scheme had not changed in 2015, and with any higher sum being paid to the member. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Many members benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced. As the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementation of the remedy is expected to be extremely challenging from both administration and communications perspectives. SPPA has not yet published its formal response to the consultation.

It's anticipated that rectification regulations should come into force from the start of October 2023.

The Fund's IAS26 reporting from its actuary, as disclosed in Note 22, takes into account the appeal decision and the proposed remedy.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Guaranteed Minimum Pension (GMP) Equalisation - Lloyds ruling on historic transfers

On 20 November the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers between 17 May 1990 - 5 April 1997 GMPs to be equalised, even if they were taken as long ago as 1990. Schemes will be expected to pay a top-up to receiving scheme with interest at Bank base rate +1%. There are limited exceptions that don't require a top-up, but it's not obvious within the judgement that there's to be any blanket exception on the application of this ruling to public sector schemes.

It's not yet clear what impact this will have for the LGPS and the Fund is awaiting further guidance before taking any further action.

Contingent Value Right (CVR)

Following the take-over and delisting of one of the Fund's holdings in Abiomed by Johnson & Johnson in 2022 the Fund received a cash payment and one CVR with the entitlement of up to $35 per share if certain commercial and clinical milestones are achieved in the future. The CVR is unlisted and non-tradeable.

The CVR is held at a valuation of zero within the portfolio and the Fund would receive £166.7k if the milestones are achieved.

32 Impairment losses

	2021/22	2022/23
	£000	£000
Bad Debt provision	370	361

During the year the Fund recognised impairment losses in respect of various pension overpayments and a small amount of employer fees. There was also an impairment loss for cessation contributions for a specific employer (Freespace).

Freespace voluntarily exited the Fund on 31 March 2020. An exit debt of £390,000 was identified by the actuary. Discussions took place with the company on repayment of exit debt and it was agreed that an initial payment of £75,000 would be made by Freespace. This was paid in September 2020, however a balance of £315,000 remains unpaid as the company entered liquidation on 22 October 2020.

The Fund submitted a claim to the liquidators (SKSi Limited) and adjudication on claims submitted by creditors was confirmed on 11 April 2023. Dividends to unsecured creditors (including the Fund) were calculated as 19.2p in the pound and therefore the Fund expects to receive £60.4k.

LOTHIAN PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of funding policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated September 2021. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the overall Fund;
- to ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund;
- to minimise the degree of short-term change in employer contribution rates;
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment;
- to help employers manage their pension liabilities; and
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 67% chance that the Fund will be fully funded over 20 years.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £7,479 million, were sufficient to meet 106% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £408 million. For the avoidance of doubt, these results are based on the assumptions that apply to the Fund's Primary investment strategy.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as outlined in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report.

LOTHIAN PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted under the Primary investment strategy for the 2020 valuation were as follows:

	31 March 2020
Financial assumptions	**% p.a.**
Discount rate	3.00%
Salary increase assumption	2.45%
Benefit increase assumption (CPI)	1.95%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.5 years	23.3 years
Future Pensioners *	22.0 years	25.2 years

**Currently aged 45*

Copies of the 2020 valuation report and Funding Strategy Statement are available on the Fund's website.

Experience over the period since 31 March 2020

Markets continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience) have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the previous formal valuation at 31 March 2020 due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
2 May 2023

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2023

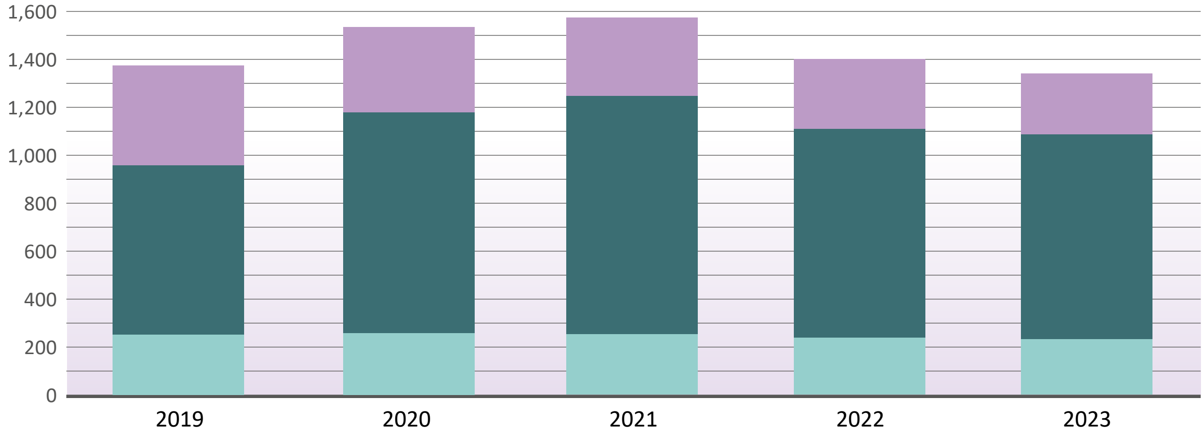
Scheduled Bodies	
City of Edinburgh Council (The)	Scottish Fire and Rescue Service
East Lothian Council	Scottish Police Authority
Edinburgh College	Scottish Water
Heriot-Watt University	SESTRAN
Lothian Valuation Joint Board	VisitScotland
Midlothian Council	West Lothian College
Scotland's Rural College (SRUC)	West Lothian Council

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2023

Admitted Bodies	
Audit Scotland	Improvement Service (The)
Baxter Storey	Lothian Buses
BEAR Scotland	LPFE Limited
Bellrock Property and Facilities Management	Melville Housing Association
Canongate Youth Project	Mitie PFI
Capital City Partnership	Morrison Facilities Services Ltd
CGI UK Ltd	Museums Galleries Scotland
Children’s Hearing Scotland	Newbattle Abbey College
Children’s Hospice Association Scotland	North Edinburgh Dementia Care
Citadel Youth Centre	NSL Services Ltd
Compass Chartwell	Pilton Equalities Project
Convention of Scottish Local Authorities	Queen Margaret University
Dacoll Limited	Royal Edinburgh Military Tattoo
Edinburgh Development Group	Royal Society of Edinburgh
Edinburgh Leisure	Scotland's Learning Partnership
Edinburgh Napier University	Scottish Adoption Agency
ELCAP	Scottish Futures Trust
Enjoy East Lothian	Scottish Schools Education Research Centre (SSERC)
Family Advice and Information Resource	Skanska UK
First Step	Sodexo Ltd
Forth and Oban Ltd	St Andrew’s Children’s Society Limited
Handicabs (Lothian) Ltd	Stepping Out Project
Health in Mind	University of Edinburgh (Edinburgh College of Art)
Heriot Watt University Students Association	West Lothian Leisure
Homes for Life Housing Partnership	

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

SCOTTISH HOMES PENSION FUND MEMBERSHIP DATA



	2019	2020	2021	2022	2023
Active	-	-	-	-	-
Deferred	404	360	320	295	262
Pensioner	906	911	898	870	861
Dependant	263	262	252	238	228

Investment strategy

The Fund's last triennial actuarial valuation was dated 31 March 2020, at which point the actuary estimated Scottish Homes Pension Fund’s funding level to be 117.7%, whilst the Fund’s actuary, Hymans Robertson, reported a funding level of 118% in their latest available funding update at 31 March 2022. The Fund continues to have achieved its full funding objective ahead of the timeline originally agreed by the Scottish Government and the City of Edinburgh Council.

As the Fund is closed to new entrants and relatively mature, its objective is to minimise investment shortfall risk of assets relative to liabilities, in line with Scottish Government guidance. The Pensions Committee reaffirmed the following investment objective in June 2021: "To match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the Fund."

There was no change to the Fund’s strategic allocation of 100% to bonds in the year to 31 March 2023, and the Fund invests solely in cash and bonds, specifically UK gilts, which move proportionately with liability values.

To ensure that invested assets are as closely matched with the liability profile as possible, the investment manager takes into consideration the expected duration of liabilities and whether they’re fixed or inflation-linked in nature. The Fund’s strategy is to match the cash flows of liabilities one year beyond the date of the next valuation and to match the duration of liabilities beyond that. This is because of the greater visibility of pension payments in the near term. The higher allocation to cash is due to the fully funded status of the Fund. As bonds redeem, the cash is reinvested in short-dated bonds, so that this has no impact on the duration matching with the liabilities.

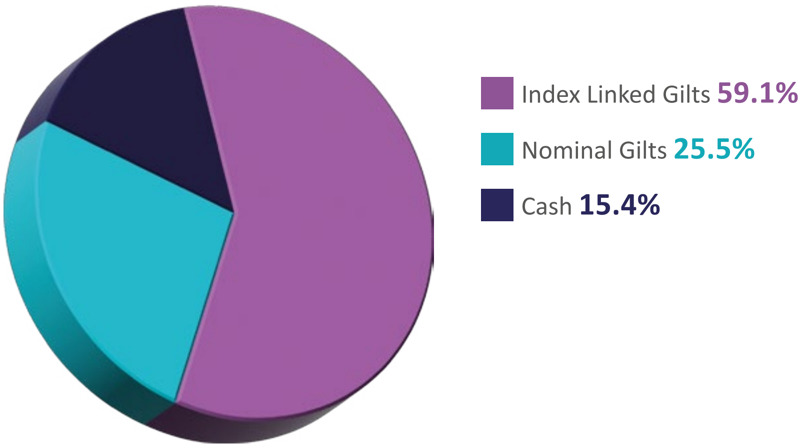
SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

Over the longer term, funding levels are subject to the actuary's financial and demographic assumptions of future experience, which are re-examined every three years. Hymans Robertson, the Fund's actuary, have stated that the funding level at end March 2023 (the next triennial valuation) is "likely to be fairly similar to that reported at the previous formal valuation".

Following the confirmation of the March 2023 valuation results, the portfolio holdings will be reviewed and rebalanced as required to ensure that they continue to cash flow and duration match the expected liabilities.

The actual asset allocation of the Fund is shown in the pie chart below:

ACTUAL ASSET ALLOCATION 31 MARCH 2023



Investment movements

As the Scottish Homes Pension Fund is relatively mature, it uses the proceeds of gilt coupons and redemptions to pay pensions. Cash or cash equivalents are held to enable pensions to be paid between the dates when gilts redeem. Being fully funded, the fund typically invests excess cash in short-dated bills and gilts. The cash balance at end March 2023 was equivalent to slightly more than two and a half years' pension payments, an increase on the prior year due to the run-off of maturing bonds.

The fund's assets have declined in value over the year, from £152.0 to £124.6m, due to higher discount rates as the BOE raised rates significantly to address high inflation. Secondly, £7m was paid out in pensions over the year. Adjusted for cash flow movements, the underlying assets decreased in value by -13.8% over the year.

As gilts are generally held to maturity and matched with liability payments, short term fluctuations in asset values don't impact the overall strategy. Liability values rise and fall, as they did this year, with asset values.

SCOTTISH HOMES PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2023

Financial statements

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income from investment dealings as well as the cost of providing benefits and administration of the Fund.

2021/22			2022/23
£000		Note	£000
	Income		-
-	Contributions from the Scottish Government	3	-
-	Transfers from other schemes		-
-			
	Less: expenditure		
6,360	Pension payments including increases		6,258
506	Lump sum retirement payments		769
8	Lump sum death benefits		14
-	Transfers to other schemes		17
(38)	Administrative expenses	4b	(35)
6,836			**7,023**
(6,836)	**Net withdrawals from dealing with members**		**(7,023)**
	Returns on investments		
1,923	Investment income	5	1,981
1,683	Change in market value of investments	6, 9b	(22,640)
(98)	Investment management expenses	4c	(88)
3,508	**Net returns on investments**		**(20,747)**
(3,328)	**Net increase/(decrease) in the Fund during the year**		**(27,770)**
157,542	Net assets of the Fund at 1 April 2022		154,214
154,214	**Net assets of the Fund at 31 March 2023**	**9**	**126,444**

SCOTTISH HOMES PENSION FUND
NET ASSETS STATEMENT AS AT 31 MARCH 2023

This statement provides a breakdown of type and value of all net assets at the year-end.

31 March 2022			31 March 2023
£000		Note	£000
	Investment Assets		
139,732	Bonds - UK		104,882
12,291	Cash Deposits		19,273
471	Other investment assets		447
152,494		9c	**124,602**
	Investment Liabilities		
-	Other investment liabilities		-
-			-
152,494	**Net investment assets**	7	**124,602**
	Current assets		
183	The City of Edinburgh Council	17	265
1,551	Cash balances	10,15	1,597
1	Debtors	13	7
1,735			**1,869**
	Current liabilities		
(15)	Creditors	14	(27)
(15)			**(27)**
1,720	**Net current assets**		**1,842**
154,214	**Net assets of the Fund**	9	**126,444**

The unaudited accounts were issued on 21 June 2023 and the audited accounts were authorised for issue on 27 September 2023.

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
27 September 2023

Note to the net asset statement
The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They don't take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

The statement of accounting policies for all Funds can be found on page 147.

2 Events after the reporting date

There have been no events since 31 March 2023, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

3 Contributions from the Scottish Government

The Scottish Homes Pension Fund (SHPF) is an employer pension fund for former employees of Scottish Homes (subsequently Communities Scotland), Scottish Special Housing Association and Homeless Action Scotland (HAS) (formerly The Scottish Council for Single Homeless).

The City of Edinburgh Council was selected by the Scottish Executive to be the administering authority of a fund created prior to the wind up of the Scottish Homes Residuary Body and therefore became the administering authority of SHPF on 1 July 2005, pursuant to section 2(a)(1A) of The Local Government Pension Scheme (Scotland) Amendment (No. 2) Regulations 2005 (SSI 315/2005) (the 2005 Regulations). Former employees of HAS were transferred to SHPF on 12 July 2018 following receipt of Scottish Ministers approval on 31 March 2020.

SHPF is a mature, non-active fund. The fund has no contributions paid into it by active members but consists only of deferred and pensioner members and therefore only pays money out to the pensioners.

Section 2 (1C) of the 2005 Regulations stipulates that:

"Where the actuary determines, after having regard to the existing and prospective liabilities of the fund, that additional funding is necessary to maintain the solvency of the fund (SHPF), then Scottish Ministers will make payments to the administering authority to maintain that solvency."

In this way, the Scottish Government acts as the ‘Guarantor’ for SHPF’s liabilities, as confirmed in the Funding Agreement, signed on behalf of the Scottish Executive and dated 6 July 2005.

As at the latest triennial actuarial valuation date of 31 March 2020, SHPF showed a funding surplus of £24.9million with a funding level of 117.7%, derived from a market valuation of assets of £166.1million and liabilities of £141.1million.

In accordance with the provisions of the Funding Agreement, the assets of SHPF are now invested entirely on a low risk basis. With a funding surplus, the Scottish Government isn't required to provide any contribution, but as Guarantor has the responsibility to pay towards the administration expenses of the Fund. This amounted to £90,000 per annum for years 31 March 2021 to 31 March 2024. Investment expenses are being met directly from the Fund’s surplus.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

4a Total management expenses

	2021/22 £000	2022/23 £000
Administrative costs	(45)	(48)
Investment management expenses	48	47
Oversight and governance costs	59	54
	62	**53**

This analysis of costs for the Scottish Homes Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined administration and investment management expenses in note 4b and c and splits out the costs to include a third heading covering oversight and governance expenditure.

4b Administrative expenses

	2021/22 £000	2022/23 £000
Employee costs	29	29
System costs	11	12
Actuarial fees	1	3
External audit fees	1	1
Printing and postage	3	2
Depreciation	1	2
Office costs	1	1
Sundry costs less sundry income	5	5
	52	**55**
Administration fee received	(90)	(90)
	(38)	**(35)**

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. Lothian Pension Fund (inclusive of Scottish Homes Pension Fund) has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4c Investment management expenses

	2021/22	2022/23
	£000	£000
Employee costs	47	49
Custody fees	4	5
Engagement and voting fees	2	1
Consultancy fees	10	1
System costs	13	15
Legal fees	2	2
Office costs	2	2
Sundry costs less sundry income	18	13
	98	**88**

The Fund has not incurred any performance-related investment management fees in 2022/23 or 2021/22.

5 Investment income

	2021/22	2022/23
	£000	£000
Income from fixed interest securities	1,921	1,919
Interest on cash deposits and sundries	2	62
	1,923	**1,981**
Irrecoverable withholding tax	-	-
	1,923	**1,981**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

6 Reconciliation of movement in investments

	Market value at 31 March 2022	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2023
	£000	£000	£000	£000	£000
Bonds	139,732	27,913	(39,979)	(22,784)	104,882
	139,732	27,913	(39,979)	(22,784)	104,882
Other financial assets / (liabilities)					
Cash deposits*	12,291			144	19,273
Investment income due/amounts payable*	471			-	447
	12,762			144	19,720
Net financial assets	152,494			(22,640)	124,602

** Per CIPFA disclosure guidance the change in market value intentionally does not balance opening/closing market values*

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

	Market value at 31 March 2021	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2022
	£000	£000	£000	£000	£000
Bonds	140,723	-	(2,670)	1,679	139,732
	140,723	-	(2,670)	1,679	139,732
Other financial assets / (liabilities)					
Cash deposits*	14,906			4	12,291
Investment income due/amounts payable*	461			-	471
	15,367			4	12,762
Net financial assets	156,090			1,683	152,494

** Per CIPFA disclosure guidance the change in market value intentionally does not balance opening/closing market values*

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

7 Investment managers and mandates

		Market value at 31 March 2022	% of total 31 March 2022	Market value at 31 March 2023	% of total 31 March 2023
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	Ex-Equity	12	0.01	12	0.01
Total ex-equities		**12**	**0.01**	**12**	**0.01**
In-house	UK Index Linked Gilts	152,482	99.99	124,567	99.97
Total fixed interest and inflation linked bonds		**152,482**	**99.99**	**124,567**	**99.97**
In-house	Cash	-	-	23	0.02
Total cash		**-**	**-**	**23**	**0.02**
Net financial assets		**152,494**	**100.0**	**124,602**	**100.0**

8 Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2022	% of total 31 March 2022	Market value at 31 March 2023	% of total 31 March 2023
	£000	**%**	**£000**	**%**
UK Gov 0% T-BILL 26/06/2023	-	N/A	9,903	7.8
UK Gov 2.5% Index Linked 17/07/24	9,253	6.0	9,284	7.3
UK Gov 1.25% Index Linked 22/11/27	9,501	6.2	9,024	7.1
UK Gov 4.125% Index Linked 22/07/30	9,338	6.1	8,456	6.7
UK Gov 4.25% 07/06/32	8,535	5.5	7,309	5.8
UK Gov 0% T-BILL 11/09/2023	-	N/A	6,867	5.4
UK Gov 0.625% Index Linked 22/11/42	8,336	5.4	5,886	4.7
UK Gov 1.875% Index Linked 22/11/21	8,470	5.5	-	N/A

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9 Financial instruments

9a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there's no difference between the carrying value and fair value.

	31 March 2022			31 March 2023		
Financial assets	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Investment assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	139,732	-	-	104,882	-	-
Cash	-	12,291	-	-	19,273	-
Other balances	-	471	-	-	447	-
	139,732	**12,762**	**-**	**104,882**	**19,720**	**-**
Other assets						
City of Edinburgh Council	-	183	-	-	265	-
Cash	-	1,551	-	-	1,597	-
Debtors	-	1	-	-	7	-
	-	**1,735**	**-**	**-**	**1,869**	**-**
Assets total	**139,732**	**14,497**	**-**	**104,882**	**21,589**	**-**
Financial liabilities						
Other liabilities						
Creditors	-	-	(15)	-	-	(27)
Liabilities total	**-**	**-**	**(15)**	**-**	**-**	**(27)**
Total net assets	**139,732**	**14,497**	**(15)**	**104,882**	**21,589**	**(27)**
Total net financial instruments			**154,214**			**126,444**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9b Net gains and losses on financial instruments

	2021/22	2022/23
	£000	£000
Designated as fair value through Fund Account	1,679	(22,784)
Loans and receivables	4	144
Financial liabilities at amortised cost	-	-
Total	**1,683**	**(22,640)**

9c Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that isn't considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9c Valuation of financial instruments carried at fair value cont

The values of the investments in unquoted private debt and equity, infrastructure, timber and real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

	31 March 2023			
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Bonds	-	104,882	-	104,882
Cash deposits	19,273	-	-	19,273
Investment income due/amounts payable	447	-	-	447
Total financial assets	**19,720**	**104,882**	**-**	**124,602**
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	**-**	**-**	**-**	**-**
Net investment assets	**19,720**	**104,882**	**-**	**124,602**

	31 March 2022			
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Bonds	-	139,732	-	139,732
Cash deposits	12,291	-	-	12,291
Investment income due/amounts payable	471	-	-	471
Total financial assets	**12,762**	**139,732**	**-**	**152,494**
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	**-**	**-**	**-**	**-**
Net investment assets	**12,762**	**139,732**	**-**	**152,494**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments

Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. As directed by Scottish Government, with the 31 March 2020 actuarial valuation showing a funding level of 117.7%, the Fund is invested entirely in low risk assets. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they fall due.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Joint Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The market risk of the Scottish Homes Pension Fund has to some extent been mitigated, as the fund holds only gilts. Most of the reduction in market risk is relative to the liabilities, and not outright. The fund's assets have been matched to its liabilities as at the 31 March 2020 triennial valuation so that interest rate risk has been minimised, and as all assets held are valued in pound Sterling, no exchange risk occurs. A review of the asset matching of the Fund takes place following the publication of each triennial valuation, which is typically a year after the valuation point. Following the results of the 31 March 2023 triennial valuation, rebalancing is scheduled to take place early in the new financial year.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table below sets out the long-term volatility assumptions used by the Fund's investment adviser Isio:

Asset type	Potential price movement (+ or -)
Index-Linked Gilts	11.8%
Fixed Interest Gilts	11.2%
Cash	1.5%

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don't always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there's less risk of assets losing value at the same time. The overall Fund benefits from "diversification" because it invests in numerous different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests.

The following table shows the risks at the asset class level and the overall Fund level.

	Value at 31 March 2023	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Index-Linked Gilts	73	58.4	11.8%	82	64
Fixed Interest Gilts	32	25.6	11.2%	36	28
Cash	20	16.0	1.5%	20	20
Total [1]	**125**	**100.0**	**12.5%**	**138**	**112**
Total [2]			**9.1%**	**136**	**114**
Total [3]			**1.7%**	**127**	**n/a**

[1] No allowance for correlations between assets
[2] Including allowance for correlations between assets
[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets [1].

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme isn't measured in absolute terms, but relative to its liabilities [3]. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits are the major areas of credit exposure where credit risk isn't reflected in market prices.

Cash deposits

At 31 March 2023, cash deposits represented £20.9m, 16.5% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2023	Balances at 31 March 2022	Balances at 31 March 2023
Held for investment purposes		**£000**	**£000**
Northern Trust Company - cash deposits	A2	8,935	2,502
UK Short-Term Bills and Notes	Aa3	3,356	16,771
		12,291	**19,273**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,551	1,597
Total cash		**13,842**	**20,870**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration. The Council has in place counterparty criteria.

The Council has in place institutional restrictions on investments and counterparty criteria. These include:

(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation
(b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund
(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security provided, from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

	Moody's Credit Rating at 31 March 2023	Balances at 31 March 2022	Balances at 31 March 2023
Money market funds	**£000**	**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	58	224
Goldman Sachs	Aaa-mf	41	7
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	125	58
Bank call accounts			
Bank of Scotland	A1	155	1
Royal Bank of Scotland	A1	7	59
Svenska Handelsbanken	A1	-	73
Notice accounts			
HSBC Bank PLC	A1	155	1
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	691	240
Supranational Commercial Paper			
European Investment Bank	Aaa	119	-
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	200	934
		1,551	**1,597**

[1] Very few Local Authorities have their own credit rating but they're generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2023 was 'Aa3').

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund doesn't expect any losses from non-performance by any of its counterparties in relation to deposits.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund isn't bound by any obligation to replenish its investments and hence isn't exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund won't be able to meet its financial obligations as they fall due. The Fund therefore ensures that there's adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund's cash flows.

All of the Fund's investments could be converted to cash within three months in a normal trading environment.

11 Actuarial statement

The Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

12 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £95m (2022 £116m). This figure is used for statutory accounting purposes by Scottish Homes Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2022	31 March 2023
	% p.a.	% p.a.
Inflation/pensions increase rate	3.20%	2.95%
Discount rate	2.70%	4.75%

Longevity assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 2.0% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2022		31 March 2023	
	Male	Female	Male	Female
Current pensioners	20.3 years	23.1 years	20.4 years	23.1 years
Future pensioners (assumed to be currently 45)	21.6 years	25.0 years	20.4 years	25.8 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

13 Debtors

	31 March 2022	31 March 2023
	£000	£000
Sundry debtors	1	7
	1	**7**

14 Creditors

	31 March 2022	31 March 2023
	£000	£000
Benefits payable	15	25
Miscellaneous creditors and accrued expenses	0	2
	15	**27**

15 Related party transactions

The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there's a strong relationship between the Council and the Pension Funds.

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. Lothian Pension Fund (inclusive of Scottish Homes Pension Fund) has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2022	31 March 2023
	£000	£000
Year end balance of holding account	183	265
	183	**265**

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2023, the fund had an average investment balance of £1.4m (2022 £1.7m). Interest earned was £31k (2022 £2k).

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

15 Related party transactions cont

	31 March 2022	31 March 2023
Year end balance on treasury management account	**£000**	**£000**
Held for investment purposes	-	-
Held for other purposes	1,551	1,597
	1,551	**1,597**

Fund guarantor

The Fund guarantor (by definition) is a related party to the scheme. The Scottish Government's contributions to the Fund can be found in note 3 (page 126) of the notes to the Financial Statements.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund and Scottish Homes Pension Fund for the purposes of administering the Funds under an intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. Lothian Pension Fund is invoiced for these services and Scottish Homes Pension Fund is then allocated a percentage recharge on a defined basis. During the year to 31 March 2023, the Fund was recharged £78k (2022 £76k) for the services of LPFE Limited staff.

Governance

As at 31 March 2023, all members of the Pensions Committee and the Pension Board were members of the Lothian Pension Fund, with the exception of Richard Lamont and Tony Beecher. One member of both the Pensions Committee and the Pension Board is in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pensions Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

15 Related party transactions cont

During the period from 1 April 2022 to the date of issuing of these accounts, Lothian Pension Fund was charged by City Of Edinburgh Councils via its service level agreement for time spent by its Executive Management team on pension fund issues, Scottish Homes Pension Fund is then recharged for these services on a defined basis. All other staff that held key positions in the financial management of Lothian Pension Fund and Scottish Homes Pension Fund were employed by LPFE Limited. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2022	31 March 2023
	£000	£000
Short-term employee benefits	909	1,281
Post-employment benefits - employer pension contributions	111	119

Key management personnel employed by LPFE had accrued pensions totalling £148,034 (1 April 2022: £134,724) and lump sums totalling £147,429 (1 April 2022: £131,304) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 179.

Staff are either employed by City of Edinburgh Council or LPFE Limited, and their costs reimbursed by the Pension Funds. The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

16 Contingent assets/liabilities

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019 a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 4 August 2020, the Scottish Public Pensions Agency (SPPA) issued a statutory consultation on the proposed remedy, with this closing in October 2020. As anticipated, it's proposed that a comparison will be made between the benefits payable under the current rules with the entitlements which would have been paid if the Scheme hadn't changed in 2015, and with any higher sum being paid to the member. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Many members benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced. As the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementation of the remedy is expected to be extremely challenging from both administration and communications perspectives. SPPA hasn't yet published its formal response to its consultation.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

It's anticipated that rectification regulations should come into force from the start of October 2023.

The Fund's IAS26 reporting from its actuary, as disclosed in Note 12, takes into account the appeal decision and the proposed remedy.

Guaranteed Minimum Pension (GMP) Equalisation - Lloyds ruling on historic transfers

On 20 November 2022 the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers with 17 May 1990 - 5 April 1997 GMPs to be equalised, even if they were taken as long ago as 1990. Schemes will be expected to pay a top-up to receiving scheme with interest at Bank base rate +1%. There are limited exceptions that don't require a top-up, but it isn't obvious within the judgement that there's to be any blanket exception on the application of this ruling to public sector schemes.

It isn't yet clear what impact this will have for the LGPS and the Fund is awaiting further guidance before taking any further action.

17 Contractual commitments

The Fund had no contractual commitments at the year end.

18 Impairment losses

No impairment losses have been identified during the year.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of funding policy

The Administering Authority's Funding Strategy Statement (FSS), dated September 2021, states that a bespoke funding strategy has been adopted for the Fund.

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels. The deficit recovery period is 8 years.

The Fund's assets are invested wholly in index-linked gilts.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund's assets, which at 31 March 2020 were valued at £166.1 million, were sufficient to meet 117.7% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £24.9 million.

The Guarantor's contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund's funding policy as set out in its FSS.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2020 valuation were as follows:

Financial assumptions	31 March 2020
Discount Rate	Bank of England nominal yield curve
Benefit increase assumption (CPI)	Bank of England implied inflation (RPI) curve less 0.9% p.a.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2022/23

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 2.0% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.8 years	23.3 years
Future Pensioners *	21.1 years	26.0 years

**Currently aged 45*

Copies of the 2020 valuation report and Funding Strategy Statement are available on the LPF website.

Experience over the period since 31 March 2020

Since the last formal valuation, real bond yields have risen, reducing the value of the liabilities and the assets held by the Fund. As a result, the funding level of the Fund as at 31 March 2023 is likely to be fairly similar to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
11 May 2023

ACCOUNTING POLICIES AND GENERAL NOTES

1. Basis of preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Financial Statements summarises the transactions of the Funds for the 2022/23 financial year and report on the net assets available to pay pension benefits as at 31 March 2023. The Financial Statements don't take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present values of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are disclosed in the Notes to the Financial Statements.

The Financial Statements are prepared on the going concern basis, which provides that the Funds will continue in operational existence for the foreseeable future. The basis is on the grounds that there's sufficient funding available to the Funds to support the anticipated continuation of the provision of services.

2. Summary of significant accounting policies

General

a) Basis of consolidation – Group accounts

Commencing with the year ended 31 March 2016, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 – Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Further details of the consolidation are provided in the Notes to the Financial Statements of Lothian Pension Fund.

LPFE Limited (LPFE) and LPFI Limited (LPFI) are wholly owned by the City of Edinburgh Council in its capacity as administering authority for the Local Government Pension Scheme in the Lothian area.

The purpose of LPFE is to provide staff services in respect of management of the Fund. LPFI's purpose is to provide FCA regulated services to LPF and other Local Government Pension Scheme funds. It's considered appropriate to consolidate the Financial Statements of the two companies with those of Lothian Pension Fund.

ACCOUNTING POLICIES AND GENERAL NOTES

Fund Account – revenue recognition

b) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the rate certified by the Scheme Actuary in the payroll period to which they relate.

Similarly, employer deficit funding contributions are accounted for on the due date on which they're payable as certified by the Scheme Actuary.

Employers' pensions strain contributions are accounted for in the period in which the liability arises. Any amount due but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

c) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

d) Investment income

i) Interest income

Interest income is recognised in the Fund Accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

ACCOUNTING POLICIES AND GENERAL NOTES

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Income from unquoted private equity and infrastructure investments

Income from the above sources is recognised when it's notified by the manager. Distributions are split into capital and income elements with the latter being included under investment income in the Fund Account.

v) Property related income

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by Lothian Pension Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Rental income is reported gross with the operational costs of the properties included in investment management expenses.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

vi) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

e) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

ACCOUNTING POLICIES AND GENERAL NOTES

f) Taxation

i) Pension Funds

The Local Government Pension Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

ii) Controlled entities – LPFE and LPFI

The Companies are mutual traders and are therefore not liable to corporation tax on any surpluses generated from services provided in respect of the Fund. The tax charges for the period are based on any profit for the period from non-mutual trade, adjusted for any non-assessable or disallowed items. They're calculated using tax rates that have been enacted or are substantively enacted by the period end date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it's probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account, or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

ACCOUNTING POLICIES AND GENERAL NOTES

g) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Lothian Pension Fund is responsible for administering the two Funds. The costs include charges from LPFE and LPFI for services rendered. LPF receives an allocation of the overheads of the Council based on the amount of central services consumed. In turn, these costs are allocated to the two Funds.

Costs directly attributable to a specific fund are charged to the relevant fund. Investment management costs that are common to all funds are allocated in proportion to the value of each fund as at the end of the year. Other administration costs are allocated in proportion to the number of members in each of the funds at the end of the year.

h) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

For some investment managers, an element of their fee is performance related. The amount of any performance related fees paid is disclosed in the note to the accounts on investment management expenses provided for each Fund.

The cost of administering the Local Government Pension Scheme in the UK has come under increasing scrutiny in recent years. As a result, it has been decided to recognise investment management costs that are deducted from the value of an investment and recognised this as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Investment transaction costs that are added to an investment purchase price or deducted from the proceeds of a sale are also recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments.

In June 2016, CIPFA revised and updated its guidance “Accounting for Local Government Pension Scheme Management Costs”. Whilst the underlying principle of transparency of investment costs remains unchanged, there’s been a degree of relaxation to full cost disclosure. Specifically, for complex ‘fund of funds’ structures, the new guidance states that “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the (Pension) Fund Account . . . If pension funds wish to provide information about the total cost of ‘fund of fund’ investments, this should be included as part of the Investments section in the Annual Report.”

The impact of this is that investment management costs deducted from any underlying fund in a ‘fund of funds’ investment would not be included in the costs disclosed in the Fund Account. As this would significantly under-report investment management costs, it has been decided not to adopt this element of the CIPFA guidance. However, this type of cost is separately identified as "external management fees – deducted from capital (indirect)" in the notes on investment management expenses.

ACCOUNTING POLICIES AND GENERAL NOTES

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are not treated as an expense. Such costs are accounted for as part of the acquisition costs or sale proceeds.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the in-house investment management team are charged to the fund. The basis of allocation is as described in section g.

Securities lending revenue is reported gross and their fees are disclosed in investment management expenses.

i) Operating lease

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. In accordance with IFRS 16, lease incentives are recognised as a reduction in the lease expense over the term of the lease on a straight-line basis.

Net Assets Statement

j) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the Fund's Investment Valuation Policy. The Policy is designed to provide a framework for LPF's investment valuation process as determined by the Investment Valuation Group, which has been given delegated authority from the Chief Executive Officer of the Fund.

The Fund's Investment Valuation Group reviews the valuation process for all investments on an annual basis, including the application of appropriate valuation standards, based on the input of LPF's Investment Management team. Group members consist of the Fund's Portfolio Managers, Finance Managers, and Risk Managers.

For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The basis of the valuation of each class of investment assets is set out on the next page. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

OUTSTANDING SERVICE

'I was nervous about deferring my pension, but everyone I spoke to was very patient and understanding and talked me through the process. Thank you for your support."

ACCOUNTING POLICIES AND GENERAL NOTES

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Market quoted investments -	Level 1	Closing bid value on published exchanges	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Future derivative contracts	Level 1	Determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.	Not required	Not required
Forward foreign exchange derivatives	Level 1	Based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.	Not required	Not required
Government bonds – fixed interest /	Level 2	Recorded at net market value based on their current yields.	Evaluated price feeds	Not required
Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by CBRE Ltd in accordance with RICS Red Book Global Valuation Standards (introduced with effect from 31 January 2022).	Existing lease terms and rentals. Independent market research.	Not required
Unquoted Pooled investments – Private Equity, Infrastructure, Timber, Private Secured Loans & Property	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Guidelines and the IPEV Board's Special Valuation Guidance (March 2020).	EBITDA multiple revenue multiple. Discount for lack of marketability. Control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

ACCOUNTING POLICIES AND GENERAL NOTES

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and in consultation with independent investment advisers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2023.

Lothian Pension Fund	Assessed Valuation range (+ or -)	Value at 31 March 2023	Value on increase	Value on decrease
Unquoted		£m	£m	£m
Private Equity	26.0%	108	137	80
Infrastructure	12.0%	1,324	1,483	1,165
Timber	18.0%	111	131	91
Private Secured Loans	10.5%	420	464	376
Property	13.0%	488	551	424
		2,451	**2,766**	**2,136**

Scottish Homes Pension Fund has no assets valued at Level 3.

k) Foreign currency transactions and balances
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

l) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

m) Financial liabilities
The Fund recognise financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised.

n) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits of each of the Fund is assessed on an annual

ACCOUNTING POLICIES AND GENERAL NOTES

basis by the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statements.

o) Additional voluntary contributions

The Lothian Pension Fund provide an additional voluntary contributions (AVC) scheme for their members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life and Prudential as their AVC providers. AVCs are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs aren't included in pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed by way of note.

p) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it isn't possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities aren't recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

q) Employee benefits

The employees of LPFE are eligible to participate in Lothian Pension Fund.

In the Consolidated Financial Statements, the current service cost for the period is charged to the Fund Account. The assets of Lothian Pension Fund are held separately from those of the Company. The Company has fully adopted the accounting principles as required by IAS19 – Employee Benefits.

The liability recognised in the Net Asset Statement in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs.

ACCOUNTING POLICIES AND GENERAL NOTES

The defined benefit obligation is calculated annually, by the Scheme Actuary, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Fund Account in the period in which they arise.

Past-service costs are recognised immediately in the Fund Account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified time period (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

3. Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended Standards within the 2022/23 Code:

The Code requires implementation from 1 April 2023 and there is therefore no impact on the 2022/23 financial statements.

- IAS 8 Definition of Accounting Estimates
- IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies
- IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- IFRS 13 Reference to the Conceptual Framework

The amendments are generally minor or principally providing clarification. Overall, these new or amended standards aren't expected to have a significant impact on the Financial Statements.

ACCOUNTING POLICIES AND GENERAL NOTES

4 . Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It's important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments.

They're inherently based on forward-looking estimates and judgements involving many factors. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation (IPEV) Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

For the Lothian Pension Fund, the value of unquoted private equity, infrastructure, timber and secured loan investments at 31 March 2023 was £1,712m (2022 £1,344m).

Actuarial present value of promised retirement benefits

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

5 . Assumptions made about the future and other major sources of estimation uncertainty

The Financial Statements contain estimated figures that are based on assumptions made by the Council; private equity and infrastructure managers; other providers of valuation information; and the Scheme Actuary about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2023 for which there's a significant risk of material adjustment in the forthcoming financial year are as follows:

ACCOUNTING POLICIES AND GENERAL NOTES

a) Actuarial present value of promised retirement benefits

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on the fund's assets. The Fund actuary advises on the assumptions to be applied and prepares the estimates.

Effect if actual results differ from assumptions – Lothian Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2023	Approx Increase in liabilities %	Approx monetary amount £m
0.1% p.a. decrease in the Discount Rate	2%	131
1 year increase in member life expectancy	4%	279
0.1% p.a. increase in Salary Increase Rate	0%	13
0.1% p.a. increase in Pensions Increase Rate (CPI)	2%	120

Effect if actual results differ from assumptions – Scottish Homes Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2023	Approx Increase in liabilities %	Approx monetary amount £m
0.1% p.a. decrease in the Discount Rate	1%	1
1 year increase in member life expectancy	4%	4
0.1% p.a. increase in Pensions Increase Rate (CPI)	1%	1

ACCOUNTING POLICIES AND GENERAL NOTES

b) Valuation of unquoted private equity and infrastructure investments

Uncertainties

These investments aren't publicly listed and therefore there's a degree of estimation involved in their valuation, see 2j above for more details on the valuation methodology.

Effect if actual results differ from assumptions

There is a risk that these investments may be under or overstated in the Accounts at any point in time. The actual financial return of this type of investment is only known with certainty when they reach the end of their lifecycles and the final distributions are made to investors. A sensitivity analysis can be found in note 2j above.

c) Quantifying the cost of investment fees deducted from capital

Uncertainties

Section 2 h) describes the Accounting Policy for investment management expenses in relation to expenses deducted from the capital value of investments. Quantification of these costs involves asking the relevant managers for information and only some of this information can be independently verified. In cases where the charges relate to an investment as a whole, an estimate needs to be made of the costs applicable to the holding owned by the relevant fund.

Effect if actual results differ from assumptions

There's a risk that the cost of investment fees deducted from capital may be under or overstated. However, as the costs are included in the Fund Account by adjusting the change in market value of investments, any inaccuracy in the cost estimate won't change the reported net change in the Fund for the year.

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Administering Authority

The Administering Authority's responsibilities are to:

- Make arrangements for the proper administration of the financial affairs of the Fund in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. The Head of Finance serves as the Section 95 Officer for all the Council's accounting arrangements, including those of Lothian Pension Fund and Scottish Homes Pension Fund. For the Fund, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003)
- Approve the Unaudited Annual Accounts for signature.

I confirm that these Audited Annual Accounts were approved for signature by the Lothian Pension Fund Committee at its meeting on 27 September 2023.

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
27 September 2023

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Service Director: Finance and Procurement

The Service Director: Finance and Procurement, is responsible for the preparation of the Fund's Financial Statements which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code of Practice), is required to present a true and fair view of the financial position of the Fund at the accounting date and their income and expenditure for the year ended 31 March 2023.

In preparing this statement of accounts, the Service Director: Finance and Procurement, has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation and the Local Authority Accounting Code (in so far as it is compatible with legislation)

The Service Director: Finance and Procurement, has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2023 and the transactions of the Pension Fund for year ended 31 March 2023.

Hugh Dunn
Service Director: Finance and Procurement
The City of Edinburgh Council
27 September 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Reporting on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Lothian Pension Fund (parent and group) and Scottish Homes Pension Fund (the Funds) for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Lothian Pension Fund Fund Account, the Lothian Pension Fund Net Assets Statement, Scottish Homes Pension Fund Fund Account, the Scottish Homes Pension Fund Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In our opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the funds during the year ended 31 March 2023 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 3 November 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the funds.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the funds' current or future financial sustainability. However, we report on the funds' arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Chief Finance Officer and the City of Edinburgh Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the funds' operations.

The City of Edinburgh Council is responsible for overseeing the financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the funds;
- inquiring of the Chief Finance Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the funds;
- inquiring of the Chief Finance Officer concerning the funds' policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the funds' controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Reporting on other requirements

Other information

The Chief Finance Officer is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and our auditor's report thereon.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Nick Bennett, for and on behalf of Azets Audit Services
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

ANNUAL GOVERNANCE STATEMENT

Roles and responsibilities

The City of Edinburgh Council (the Council) has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the Lothian area of Scotland (Administering Authority). This responsibility is for two separate Funds: the Lothian Pension Fund and Scottish Homes Pension Fund (the Fund). Responsibility for the oversight and management of those funds is delegated to a governance structure in order to satisfy the requirements of relevant pensions and investment legislation and to ensure best practice.

Oversight bodies: The main functions of the Administering Authority are administration of scheme benefits and the investment of the assets of the Fund. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972. The Fund's governance structure must also adhere to the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015. The oversight of the Funds is therefore carried out via:

- The Pensions Committee and the Pensions Audit Sub-Committee
- The Pension Board
- The Joint Investment Strategy Panel
- The LPF Group.

Corporate group: The Lothian Pension Fund group comprises the investment and pensions team employed by LPFE Limited (LPFE) and LPFI Limited (LPFI), the Group's regulated investment vehicle (together the LPF Group). Both companies are wholly owned by the Administering Authority.

Further details on the above arrangements can be found in the Governance section of the Management Commentary towards the front of this document.

Scope of responsibility

As the Administering Authority of the Fund, the Council is responsible for ensuring that its business in administering the Fund, is conducted in accordance with the law and appropriate standards, and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which for the Fund is exercised in conjunction with its other separate statutory duties.

In discharging these overall responsibilities, elected members, senior officers and external representatives are responsible for implementing effective arrangements for governing the affairs of the LPF Group, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

ANNUAL GOVERNANCE STATEMENT

The LPF Group has adopted a Local Code of Corporate Governance that's consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'.

This statement explains how the LPF Group has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The governance framework

The LPF Group operates within the wider governance framework of the Council but within specific ringfenced governance structures focussed on the Fund themselves. The governance framework comprises the systems, controls, processes, cultures and values by which the LPF Group directs and controls the Fund. It also describes the way the LPF Group engages with and accounts to its stakeholders in relation to the management of the administration of the Fund. It enables the LPF Group to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The LPF Group is also directly regulated by The Pensions Regulator, the Financial Conduct Authority (regarding its regulated investment activity), the Scottish Information Commissioner and is subject to other corporate and public sector rules and regulations.

The LPF Group has a few remaining services on which it relies from the Administering Authority. These include the Council's Democracy, Governance and Resilience, Procurement, Information Governance and Internal Audit functions, all of which form part of the LPF Group's overall assurance stack. However, the Fund also seeks specialist external input in order to provide effective assurance around its financial services, investments and pensions specific business.

The LPF Group also currently places reliance upon certain of the internal financial controls within the Administering Authority's financial systems and the monitoring in place to ensure the effectiveness of these controls.

Following the establishment of the wholly-owned subsidiary companies, LPFE and LPFI, the Administering Authority continues to have appropriate assurance processes and procedures around the administration of those companies and the wider LPF Group administering the Fund.

ANNUAL GOVERNANCE STATEMENT

Review of Effectiveness

The Local Code of Governance details the Administering Authority's arrangements for monitoring each element of the framework and providing evidence of compliance.

The Chief Internal Auditor provides an annual assurance statement on the effectiveness of the system of internal control. The internal audit represents only one aspect of the LPF Group's oversight and assurance arrangements, which also includes work undertaken by LPF's Risk & Compliance team as well as other external assurance providers to support and complement existing internal activities. These assurance activities cover oversight of the group's systems and controls, including FCA regulated compliance and other regulatory frameworks. In addition, the Chief Finance Officer of the LPF Group provides a statement of the effectiveness of the internal financial control system for the year ended 31 March 2023 for the Fund.

These forms of monitoring and oversight continue to provide the Pensions Committee, Pension Board and boards of LPFE and LPFI with good levels of assurance and broad coverage of the group's activities. Where these activities have identified any weaknesses and enhancements, appropriate action plans have been agreed to make improvements where required.

ANNUAL GOVERNANCE STATEMENT

Certification

It's our opinion, in light of the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate within the LPF Group in its administration of the Fund. We consider the governance and internal control environment operating during the financial year from 1 April 2022 to 31 March 2023 to provide reasonable and objective assurance that any significant risks impacting on the LPF Group and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified and suitably proportionate actions have and will be taken to avoid or mitigate the impact of any such risks.

The LPF Group has identified certain key areas for improvement, summarised as follows:

- **Human resources:** to continue to implement the human resources strategy and Governance specific to LPF Group's requirements, prioritising an intranet to reinforce communications on policies, procedures and group "culture"
- **Pension Board:** to ensure that vacancies in the Pension Board are filled timeously and by suitable candidates and that this body of external stakeholder representatives receives the training and support it requires on an ongoing basis
- **Business continuity:** to continue to assess and refresh the business continuity plan on an ongoing basis
- **Financial services regulatory compliance:** to continue to instruct external compliance audits on the operations and governance of LPFI in order to ensure best practice compliance and assurance around its existing operations (and in preparation for its extended collaborative business model) and take action to address the recommendations from those audits on an ongoing basis
- **Third line:** to review the structure and effectiveness of its internal audit assurance
- **Data security:** to continue to enhance cyber security within the organisation following achievement of Cyber Essentials and Cyber Essentials+ accreditation in April 2023. (Cyber Essentials is a UK Government backed scheme, overseen by the National Cyber Security Centre, designed to show that an organisation has a good level of protection in cyber security.)
- **Wider governance:** to continue to maintain and reinforce separate governance and controls specific to the needs of the LPF Group, the pensions funds it administers and its distinct duties to employer and member stakeholders, consistently throughout the LPF Group's governance structures. To ensure that oversight from the Administering Authority is supported in a manner consistent with those duties.

The LPF Group will continue to ensure that these are treated as a priority and that progress towards implementation will be reviewed through the governance structures and processes established for the LPF Group and summarised herein.

ANNUAL GOVERNANCE STATEMENT

David Vallery
Chief Executive Officer
Lothian Pension Fund
27 September 2023

GOVERNANCE COMPLIANCE STATEMENT

The Regulations that govern the management of Local Government Pension Scheme in Scotland require that a Governance Compliance Statement is published. This statement sets out the extent to which governance arrangements comply with best practice.

The statement below describes arrangements at 31 March 2023 and over the financial year.

Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	✔	The City of Edinburgh Council acts as administering authority and delegates all pension scheme matters* to a committee of seven members (Pensions Committee) made up as follows: • Five City of Edinburgh Council elected members • Two external members, one drawn from the membership of the Fund and one drawn from the employers that participate in the Fund. **with the exception of consideration of a proposed merger with LPF and Falkirk Council Pension Fund.*
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	✔	The Pensions Committee includes two external places for pension fund stakeholders i.e. one each from the employer and member representatives. Fund members and employers are also represented within the Fund's Pension Board. Membership includes five employer representatives and five member representatives, although this is currently under review. All members of the Pension Board are invited to attend the meeting of the Pensions Committee and receive the relevant papers prior to those meetings. Two members of the Pension Board are invited to attend the Pensions Audit Sub-Committee.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Structure	That where a secondary committee or board has been established, the structure ensures effective communication across both levels.	✔	The Pensions Audit Sub-Committee, consisting of three members of the Pensions Committee, report to the Pensions Committee on their findings and recommendations. Two members of the Pension Board attend the Pensions Audit Sub-Committee in a non-voting capacity. The Pension Board attends the Pensions Committee meetings and takes part in training events. Implementation of investment strategy is currently delegated from the Pensions Committee to the Service Director: Finance and Procurement, who takes advice from the Joint Investment Strategy Panel. The Panel meets quarterly and reports to the Pensions Committee annually. The advisers on the Joint Investment Strategy Panel consists of the Chief Investment Officer and one other portfolio manager of LPFI plus two experienced independent external industry advisers. The Pensions Committee receives annual updates from LPFE and LPFI.
Representation	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include employing authorities (including non-scheme employers, e.g. admitted bodies) and scheme members (including deferred and pensioner scheme members).	✔	The Pension Board consists of a mix of representatives: • Five employer representatives from non-administering authority employers • Five member representatives appointed by the Trade Unions in accordance with the approach required under Scottish statute.
	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✔	Our current Independent Professional Observer (IPO) was appointed in August 2018. The appointment was extended in August 2021 for a further two years. The IPO helps Committee scrutinise advice.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Representation	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✔	As mentioned previously, external investment advisers sit on the Joint Investment Strategy Panel. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the Funds. A non-executive director was appointed to the board of LPFI on February 2017 and LPFE on March 2018, being reappointed in January 2021, with a further two-year reappointment being approved in March 2023 to both LPFE and LPFI Boards. A further non-executive director was appointed to the board of LPFI on January 2021 and LPFE on February 2021 with a two-year reappointment being approved in March 2023 to both LPFE and LPFI Boards. An external compliance consultant supports the LPF Group on its ongoing compliance with the Financial Conduct Authority rules, regulations and guidance.
	That where lay members sit on a main or secondary committee, they're treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	✔	The Pension Board attends the Pensions Committee meetings to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation. The Pension Board takes part in all Committee training events. The Pensions Committee takes account of the views of the Pension Board when making decisions.
Selection and Role of Lay Members	That Committee or Board members are made fully aware of the status, role and function that they're required to perform on either a main or secondary Committee.	✔	A comprehensive training programme including induction is in place. Members of the Pensions Committee and Pension Board are expected to attend no less than three days of training (21 hours) per year. The elected members are required to read, sign and abide by the Councillors' Code of Conduct. The LPF Code of Conduct, approved in December 2019 (which has been specifically updated and tailored for the Pension Committee and Pension Board) is required to be read and signed by elected and non-elected members prior to their appointment.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Selection and Role of Lay Members	That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	✔	The declaration of members' interests is a standard item on the agenda for meetings of the Pensions Committee, Pensions Audit Sub-Committee and Pension Board. A Code of Conduct also applies to all members of the Pensions Committee and the Pension Board. The declaration of board members' interest is a standard item on the agenda for the meetings for the LPFE and LPFI board meetings.
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS Committees.	✔	Five of the seven places of the Pensions Committee are held by elected members of the City of Edinburgh Council, which is required to retain a 2/3 majority in line with the Local Government (Scotland) Act 1973. The LPF Group's Nomination and Appointments Policy clearly documents how employer and member representatives will be elected to the Pensions Committee and Pension Board. LPFI and LPFE board members conduct meetings and other matters in accordance with their respective articles of association and shareholders' agreements.
Training/Facility Time/Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	✔	A Training and Attendance Policy is in place covering training requirements and reimbursement of expenses. The policy is available on the LPF Group's website www.lpf.org.uk. Board members and staff working for LPFI and LPFE also attend separate training for the purposes of their knowledge, understanding and (where appropriate) compliance with Financial Conduct Authority regulations.
	b) That where such a policy exists, it applies equally to all members of Committees, Sub-Committees, advisory panels or any other form of secondary forum.	✔	The Training and Attendance Policy applies to both the Pensions Committee and the Pension Board. Advisers have their own professional development obligations.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Training/Facility Time/Expenses	c) That the administering authority considers the adoption of annual training plans for Committee and Board members and maintains a log of all such training.	✔	Each Pensions Committee and Pension Board member is expected to attend no less than three days training per year (21 hours) per year. Attendance at meetings and training is monitored and reported.
Meetings frequency	a) That an administering authority's main Committee or Committees meet at least quarterly.	✔	The Pensions Committee meets at least four times a year.
	b) That an administering authority's secondary Committee or panel meet at least twice a year and is synchronised with the dates when the main Committees sits.	✔	The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times a year with further meetings held if necessary. The Joint Investment Strategy Panel meets quarterly or more frequently as required. The Pension Board attends all the Pensions Committee meetings and separately meets in advance of such meetings. Further meetings are held if necessary. From 2023 the LPFE and LPFI boards meet at least four times a year (in February, June, September and December).
	c) That an administering authority who doesn't include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
Access	That subject to any rules in the council's constitution, all members of main and secondary Committees or Boards have equal access to committee papers, documents and advice that falls to be considered at meetings of the main Committee.	✔	Pensions Committee papers and minutes are publicly available. From June 2023 the papers and minutes will be available on the Council's website via a link to the LPF website. All Pensions Committee and Pension Board members have equal access. Members of the Pensions Committee and Pension Board have equal access to the Independent Professional Observer who provides quarterly updates and attends all Pension Committee, Audit Sub Committee and Pension Board meetings.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	✔	The Pensions Committee deals with all matters relating to both the administration and investment of the Fund and the LPF Group. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the Fund.
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	✔	Governance documents, policies and details of Pension Board membership are on the LPF Group's website. The LPF Group also communicates regularly with employers and scheme members.

David Vallery

Chief Executive Officer

Lothian Pension Fund

27 September 2023

REMUNERATION REPORT

Remuneration policy for employees

Our officers and employees of Lothian Pension Fund are employed by LPFE, an arms-length organisation owned by the City of Edinburgh Council, the administering authority for Lothian Pension Fund. In recent years LPFE has been incorporated as a standalone entity to allow us to compete with private sector investment management firms for recruitment and retention of skilled and experienced investment managers and analysts.

Operating this model allows us to achieve significantly lower costs, and therefore improved net returns or lower investment risk than would be possible by appointing private sector asset managers to invest the Fund's assets. The LPFE Board acts as a Remuneration Committee for officers and employees determining pay arrangements based on comparison to well-researched market benchmarks and performance against pre-agreed performance targets, and always linked to the principle of delivering value-for-money for the members of the Fund and their sponsoring employers.

Each year LPF participates in a range of benchmarking exercises to measure operating costs and net investment returns against peers and indices relevant to us. Pay arrangements in LPFE are underpinned by comprehensive market benchmarking with an external provider and reflect the market for investment expertise where this is a requirement for the role. By using benchmarks on costs and net investment returns, we're able to provide assurance to our oversight bodies that such pay arrangements represent value-for-money for employee members and their sponsoring employers who bear the costs of operating the pension fund and securing retirement benefits.

We have three variable pay schemes at LPF; two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle colleagues to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 January to 31 December each year. The award then vests over three years.

The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met.

The accounting treatment for variable pay as outlined in "International Accounting Standard (IAS) 19, Employee Benefits" states that employee service before the vesting date gives rise to an obligation to make payment, because, at the end of each successive reporting period, the amount of future service that an employee will have to deliver before becoming entitled to the benefit is reduced.

In accordance with IAS 19, therefore, a liability has been raised as at 31 March 2023 for the two months of service which the employees have delivered with regards to the remaining vested payments in the scheme.

REMUNERATION REPORT

This obligation of LPF to make payments as a result of colleague service delivered up to 31 March 2023 is reflected in the figures presented below.

NUMBER OF EMPLOYEES BY PAY BAND

The numbers of employees whose remuneration during the year exceeded £50,000 were as follows:

Remuneration Bands	2021/22	2022/23	Remuneration Bands	2021/22	2022/23
£50,000 - £54,999	1	3	£140,000 - £144,999	2	-
£55,000 - £59,999	-	4	£145,000 - £149,999	1	-
£60,000 - £64,999	1	1	£150,000 - £154,999	-	2
£65,000 - £69,999	2	4	£155,000 - £159,999	-	2
£70,000 - £74,999	-	-	£160,000 - £164,999	3	1
£75,000 - £79,999	2	1	£165,000 - £169,999	-	3
£80,000 - £84,999	1	2	£170,000 - £174,999	-	-
£85,000 - £89,999	-	-	£175,000 - £179,000	1	-
£90,000 - £94,999	-	1	£180,000 - £184,999	-	-
£95,000 - £99,999	-	-	£185,000 - £189,999	-	-
£100,000 - £104,999	1	1	£190,000 - £194,999	-	-
£105,000 - £109,999	-	1	£195,000 - £199,999	-	-
£110,000 - £114,999	2	-	£200,000 - £204,999	-	-
£115,000 - £119,999	1	1	£205,000 - £209,999	-	-
£120,000 - £124,999	-	-	£210,000 - £214,999	-	1
£125,000 - £129,999	-	-	£215,000 - £219,999	-	-
£130,000 - £134,999	1	1	£220,000 - £224,999	-	-
£135,000 - £139,999	2	-	£225,000 - £229,000	-	1
			Total No. of Employees	**21**	**30**

REMUNERATION REPORT

EMPLOYEES REMUNERATION

The remuneration paid to LPF's senior employees is as follows:

	Total Remuneration 2021/22	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2022/23
Name and Post Title	**£000**	**£000**	**£000**	**£000**
David Vallery, Chief Executive Officer (from June 2021)	114	181	47	228
Bruce Miller, Chief Investment Officer	176	154	60	214
Struan Fairbairn, Chief Risk Officer (to September 2022)	138	57	-	57
Kerry Thirkell, Chief Risk Officer (from August 2022)	-	91	13	104
John Burns, Chief Finance Officer (resigned May 2023)	132	117	45	162
Karlynn Sokoluk, Chief Operating Officer (from November 2022)*	-	106	9	115
Helen Honeyman, Chief People Officer	112	114	44	158
Total	**672**	**820**	**218**	**1,038**

**Karlynn Sokoluk was employed as Head of Services from April 2022 to November 2022*

The senior colleagues detailed above have responsibility for management of the LPF group to the extent that they have power to direct or control the major activities of the group (including activities involving the expenditure of money), during the year to which the Remuneration Report relates, whether solely or collectively with other persons.

REMUNERATION REPORT

The variable remuneration shown above includes the Company variable remuneration for 2022/23 along with the Senior Management variable remuneration for 2022/23 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2022/23	Senior Management Variable Remuneration			Total Variable Remuneration 2022/23
		2021 Payment 3	2022 Payment 2	2023 Payment 1	
Name and Post Title	**£000**	**£000**	**£000**	**£000**	**£000**
David Vallery, Chief Executive Officer	15	-	11	21	47
Bruce Miller, Chief Investment Officer	13	14	16	17	60
Kerry Thirkell, Chief Risk Officer (from August 2022)	5	-	-	8	13
John Burns, Chief Finance Officer (resigned May 2023)	8	11	12	14	45
Karlynn Sokoluk, Chief Operating Officer (from November 2022)	8	-	-	1	9
Helen Honeyman, Chief People Officer	10	9	11	14	44
Total	**59**	**34**	**50**	**75**	**218**

The remuneration paid to our employees whose remuneration during the year exceeded £150,000 is as follows:

	Total Remuneration 2021/22	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2022/23
Name and Post Title	**£000**	**£000**	**£000**	**£000**
Andrew Imrie, Portfolio Manager	164	116	51	167
Stewart Piotrowicz, Portfolio Manager	162	114	52	166
Ian Wagstaff, Portfolio Manager	164	116	51	167
Albert Chen, Portfolio Manager	143	106	47	153
Ross Crawford, Portfolio Manager	145	104	47	151
Nicola Barrett, Portfolio Manager	150	107	51	158
Total	**928**	**663**	**299**	**962**

REMUNERATION REPORT

The variable remuneration shown on the previous page includes the Company variable remuneration for 2022/23 along with the Portfolio Manager variable remuneration for 2022/23 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2022/23	Portfolio Manager Variable Remuneration			Total Variable Remuneration 2022/23
		2021 Payment 3	2022 Payment 2	2023 Payment 1	
Name and Post Title	**£000**	**£000**	**£000**	**£000**	**£000**
Andrew Imrie, Portfolio Manager	9	13	15	14	51
Stewart Piotrowicz, Portfolio Manager	9	13	15	15	52
Ian Wagstaff, Portfolio Manager	9	13	15	14	51
Albert Chen, Portfolio Manager	10	11	13	13	47
Ross Crawford, Portfolio Manager	10	11	13	13	47
Nicola Barrett, Portfolio Manager	11	12	14	14	51
Total	**58**	**73**	**85**	**83**	**299**

Senior officers of the City of Edinburgh Council are also fully remunerated via the Council and no additional remuneration is paid by LPF. This remuneration is disclosed in the Financial Statements of the City of Edinburgh Council.

The total amount of variable remuneration payable over the next two years if all of the colleagues involved in the arrangements at 31 January 2023 remain in the company's employment is as follows:

	Payable January 2024		Payable January 2025
	2022 Payment 3	2023 Payment 2	2023 Payment 3
	£000	**£000**	**£000**
Senior Employee Variable Remuneration	46	71	71
Portfolio Manager Variable Remuneration	104	112	112
Employer National Insurance Contribution	21	25	25
Total	**171**	**208**	**208**

The amounts payable for senior employee variable remuneration over the next two years exclude amounts previously calculated for Struan Fairbairn in respect of performance in 2020/21 and 2021/22 following his resignation from LPFE in March 2022, and subsequent foregoing of vested variable pay.

REMUNERATION REPORT

Colleague pension entitlement

Pension benefits for colleagues are provided through the Local Government Pension Scheme.

The Local Government Pension Scheme became a career average pay scheme for colleagues on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The Scheme's normal retirement age for colleagues is linked to the State Pension Age (with a minimum of age 65).

From 1 April 2009, a five-tier contribution system was introduced with contributions from Scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009, contributions rates were set at 6% for all non-manual colleagues.

The tiers and members' contribution rates for 2022/23 were as follows:

Pensionable Pay (2022/23)	Rate (%)
On earnings up to and including £23,000 (2021/2022 £22,300)	5.5%
On earnings above £23,001 and up to £28,100 (2021/2022 £22,300 to £27,300)	7.25%
On earnings above £28,101 and up to £38,600 (2021/2022 £27,300 to £37,400)	8.5%
On earnings above £38,601 and up to £51,400 (2021/2022 £37,400 to £49,900)	9.5%
On earnings of £51,401 and above (2021/2022 £49,900)	12.0%

If a person works part-time, their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

REMUNERATION REPORT

The pension entitlement of the LPF Group's senior employees is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2021/22	2022/23		As at 31 March 2023	Increase from 31 March 2022
Name and Post Title	£000	£000		£000	£000
David Vallery, Chief Executive Officer (from June 2021)	12	14	Pension	-	-
			Lump Sum	-	-
Bruce Miller, Chief Investment Officer	24	4	Pension	38	1
			Lump Sum	33	-
Struan Fairbairn, Chief Risk Officer (to September 2022)	19	10	Pension	18	2
			Lump Sum	-	-
Kerry Thirkell, Chief Risk Officer (from August 2022)	-	16	Pension	-	-
			Lump Sum	-	-
John Burns, Chief Finance Officer (resigned May 2023)	18	15	Pension	58	11
			Lump Sum	99	15
Karlynn Sokoluk, Chief Operating Officer (from November 2022)	-	21	Pension	-	-
			Lump Sum	-	-
Helen Honeyman, Chief People Officer	16	22	Pension	7	3
			Lump Sum	-	-
Total	**89**	**102**		**253**	**32**

REMUNERATION REPORT

The pension entitlement of the LPF Group's colleagues whose remuneration during the year exceeded £150,000 is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2021/22	2022/23		As at 31 March 2023	Increase from 31 March 2022
Name and Post Title	£000	£000		£000	£000
Andrew Imrie, Portfolio Manager	22	23	Pension	36	6
			Lump Sum	17	-
Stewart Piotrowicz, Portfolio Manager	22	23	Pension	29	5
			Lump Sum	-	-
Ian Wagstaff, Portfolio Manager	22	23	Pension	27	4
			Lump Sum	-	-
Albert Chen, Portfolio Manager	20	21	Pension	13	3
				-	-
Ross Crawford, Portfolio Manager	20	21	Pension	11	3
				-	-
Nicola Barrett, Portfolio Manager	21	22	Pension	9	3
				-	-
Total	**127**	**133**		**142**	**24**

Exit packages

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. There was no payment of any exit packages in 2022/23 or in the previous year.

Remuneration for councillors on the Pensions Committee

Councillors on the Pensions Committee are remunerated by the City of Edinburgh Council; no additional remuneration is paid by the Fund.

ADDITIONAL INFORMATION

Key documents online

You can find further information on what we do and how we do it, on our website at www.lpf.org.uk. To view individual policy documents, click on the links below if viewing online or visit www.lpf.org.uk/publications.

- Actuarial Valuation reports
- Pension Board constitution
- Annual Report and Accounts
- Statement of Investment Principles
- Statement of Responsible Investment Principles
- Communications Strategy
- Funding Strategy Statement
- Strategy and Business Plan 2022/23
- Training and Attendance policy

Fund advisers

Actuaries:	Hymans Robertson LLP, Exchange Place 1, Semple Street, Edinburgh, EH3 8BL
Auditors	Azets, Exchange Place 3, Semple Street, Edinburgh, EH3 8BL
Bankers:	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh, EH2 2YB
Strategic advisers:	Kirstie MacGillvray and Stan Pearson
Investment custodians:	The Northern Trust Company, 50 Bank Street, Canary Wharf, London, E14 5NT
Investment managers:	Details can be found in the notes to the accounts.
Additional Voluntary Contributions (AVC) managers:	Standard Life, Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH M&G Corporate Services Limited, 10 Fenchurch Avenue, London EC3M 5AG.
Property valuations:	CBRE Ltd Valuation & Advisory Services, Henrietta House, 8 Henrietta Place, London W1G 0NB
Property Management and Property Fund Accounting:	Jones Lang LaSalle Limited: 30 Warwick Street, London, W1B 5NH
Property Legal:	CMS Cameron McKenna Nabarro Olswang LLP, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN Addleshaw Goddard LLP, One St Peter's Square, Manchester, M2 3DE
Solicitors:	Lothian Pension Fund In-house

ADDITIONAL INFORMATION

Comments and suggestions

We appreciate your comments and suggestions on this report. Please let us know which sections you found useful and if you have any suggestions for items to be included in the future. Please email your comments to pensions@lpf.org.uk.

Accessibility

You can get this document on audio CD, in Braille, large print if you ask us. Please contact Interpretation and Translation Service (ITS) on its@edinburgh.gov.uk and quote reference number 23-8794.
ITS can also give information on community language translations. You can get more copies of this document at www.lpf.org.uk/publications.

Contact details

If you would like further information about Lothian Pension Fund and Scottish Home Pension Fund, please contact us using the details on the back page of this report.

LOTHIAN
PENSION FUND

PO Box 24158,
Edinburgh EH3 1GY

Phone: 0333 996 1900
Email: pensions@lpf.org.uk
Web: www.lpf.org.uk

Appendix 3

Company registration number SC497543 (Scotland)

LPFE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

LPFE LIMITED

COMPANY INFORMATION

Chairman	Mr H Dunn
Executive Directors	Mr D Vallery Ms M Watt
Non-Executive Directors	Mr A Marchant Mr L Robb
Company number	SC497543
Registered office	4th Floor Saltire Court 20 Castle Terrace Edinburgh Lothian EH1 2EN
	Azets Audit Services Exchange Place 3 Semple Street Edinburgh United Kingdom EH3 8BL

LPFE LIMITED

CONTENTS

LPFE LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2023

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

LPFE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2023

The directors present their annual report and financial statements for the year ended 31 March 2023.

Principal activities

The principal activity of the company is the provision of seconded staff to the City of Edinburgh Council acting in its capacity as the administering authority of the Lothian Pension Fund ("LPF") and LPFI Limited in support of the administration of the Lothian Pension Fund and the Scottish Homes Pension Fund ("the Funds") and separately (on a limited basis) to Falkirk Council in its capacity as the administering authority of the Falkirk Council Pension Fund. All pension funds are part of the Local Government Pension Scheme in Scotland (LGPS).

Results and dividends

The loss for the year after tax was £1,075,298 (2022 - £1,130,547 loss) and after allowing for items included under "Other comprehensive income" a gain of £7,428,341 (2022 - £1,992,483 gain). The directors do not recommend payment of dividend.

The company's aim is to make a modest trading surplus before adjustments required under IFRS. After allowing for a gain of £34,551 (2022: £34,564) in respect of accrued holiday and variable pay and additional cost of £1,228,000 (2022: £1,281,000) for adjustments to pension costs under IAS19, the underlying trading profit is £118,151(2022: £115,889). The gain recognised under "Other comprehensive income" amounting to £8,503,639 (2022: 3,123,030 gain) all relates to further adjustments required by IAS19 and the related deferred tax liability adjustment.

Under the mutual trading agreement with LPF, the company is required to consider if any of the profit arising from the mutual trade can be returned to the Council. Although there was an underlying trading profit of £118,151 (2022: £115,889), Company Law requires that only "distributable profits" are available for distribution and that the various adjustments required under IFRS must be taken into account when determining if profits are distributable. As a result, there are no distributable profits available for return to LPF in respect of the period.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr. H Dunn	
Mr. A Marchant	
Ms K Miller	(Resigned 4 November 2022)
Mr L Robb	
Mr D S Vallery	
Mr R M Munn	(Resigned 5 May 2022)
Ms M Watt	(Appointed 30 August 2022)

Supplier payment policy

The company's current policy concerning the payment of trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU).

The company's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

Trade creditors of the company at the year end were equivalent to 8 day's purchases, based on the average daily amount invoiced by suppliers during the year.

Statement of disclosure to auditor

Each director in office at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board

....
Mr. H Dunn
Director

Date: ....

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LPFE LIMITED

Opinion

We have audited the financial statements of LPFE Limited (the 'company') for the year ended 31 March 2023 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the Financial Reporting Council's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the entity, its activities, its control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the entity is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts by the entity that were contrary to applicable laws and regulations, including fraud.

In response to the risk of irregularities and non-compliance with laws and regulations, including fraud, we designed procedures which included:

- Enquiry of management and those charged with governance around actual and potential litigation and claims as well as actual, suspected and alleged fraud;
- Reviewing minutes of meetings of those charged with governance;
- Assessing the extent of compliance with the laws and regulations considered to have a direct material effect on the financial statements or the operations of the company through enquiry and inspection;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Performing audit work over the risk of management bias and override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for indicators of potential bias.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nick Bennett ACA (Senior Statutory Auditor)
For and on behalf of Azets Audit Services

Date: ....

Chartered Accountants
Statutory Auditor

Exchange Place 3
Semple Street
Edinburgh
United Kingdom
EH3 8BL

LPFE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £	2022 £
Revenue	3	7,309,586	5,853,139
Gross profit		7,309,586	5,853,139
Administrative expenses		(8,239,065)	(6,829,006)
Operating loss	4	(929,479)	(975,867)
Finance costs	8	(115,313)	(125,956)
Loss before taxation		(1,044,792)	(1,101,823)
Income tax expense	9	(30,506)	(28,724)
Loss for the year	15	(1,075,298)	(1,130,547)
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gain on defined benefit pension schemes	13	9,592,000	3,296,000
Tax relating to items not reclassified		(1,088,361)	(172,970)
Total items that will not be reclassified to profit or loss		8,503,639	3,123,030
Total other comprehensive income for the year		8,503,639	3,123,030
Total comprehensive income for the year		7,428,341	1,992,483

LPFE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

	Notes	2023 £	2022 £
Non-current assets			
Deferred tax asset	**12**	-	874,500
Retirement benefit surplus	**13**	4,866,000	-
		4,866,000	874,500
Current assets			
Trade and other receivables	**10**	1,023,229	774,443
Cash and cash equivalents		385,682	24,531
		1,408,911	798,974
Current liabilities			
Trade and other payables	**11**	817,058	369,628
Current tax liabilities		7,522	-
		824,580	369,628
Net current assets		584,331	429,346
Non-current liabilities			
Trade and other payables	**11**	16,061	13,778
Deferred tax liabilities	**12**	213,861	-
Retirement benefit obligations	**13**	-	3,498,000
		229,922	3,511,778
Net assets/(liabilities)		5,220,409	(2,207,932)
Equity			
Called up share capital	**14**	1	1
Retained earnings	**15**	5,220,408	(2,207,933)
Total equity		5,220,409	(2,207,932)

The financial statements were approved by the board of directors and authorised for issue on .... and are signed on its behalf by:

....
Mr. H Dunn
Director

Company registration number SC497543

LPFE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Share capital	Retained earnings	Total
	£	£	£
Balance at 1 April 2021	1	(4,200,416)	(4,200,415)
Year ended 31 March 2022:			
Loss for the year	-	(1,130,547)	(1,130,547)
Other comprehensive income:			
Actuarial gains on pensions scheme	-	3,296,000	3,296,000
Tax relating to other comprehensive income	-	(172,970)	(172,970)
Total comprehensive income for the year	-	1,992,483	1,992,483
Balance at 31 March 2022	1	(2,207,933)	(2,207,932)
Year ended 31 March 2023:			
Loss for the year	-	(1,075,298)	(1,075,298)
Other comprehensive income:			
Actuarial gains on pensions scheme	-	9,592,000	9,592,000
Tax relating to other comprehensive income	-	(1,088,361)	(1,088,361)
Total comprehensive income for the year	-	7,428,341	7,428,341
Balance at 31 March 2023	1	5,220,408	5,220,409

LPFE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £	2023 £	2022 £	2022 £
Cash flows from operating activities					
Cash generated from/(absorbed by) operations	**20**		387,448		(272,079)
Interest paid			(3,313)		(956)
Income taxes paid			(22,984)		(14,877)
Net cash inflow/(outflow) from operating activities			361,151		(287,912)
Net increase/(decrease) in cash and cash equivalents			361,151		(287,912)
Cash and cash equivalents at beginning of year			24,531		312,443
Cash and cash equivalents at end of year			385,682		24,531

1 Accounting policies

Company information

LPFE Limited is a private company limited by shares incorporated in Scotland. The registered office is 4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, Lothian, EH1 2EN. The company's principal activities and nature of its operations are disclosed in the directors' report.

1.1 Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, except as otherwise stated.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

LPFE is a wholly owned subsidiary of the City of Edinburgh Council and is responsible for providing the staffing resource to administer the Lothian Pension Funds under an intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. As such the company income is guaranteed and will always have the ability to meet its outgoing expenses.

Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Revenue

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue is derived wholly from the provision of seconded staff in the United Kingdom. Revenue is recognised upon the delivery of the service to the customer.

All revenue is stated net of the amount of value added tax (VAT).

1.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.5 Financial assets

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. Financial assets are classified into specified categories, depending on the nature and purpose of the financial assets.

At initial recognition, financial assets classified as fair value through profit and loss are measured at fair value and any transaction costs are recognised in profit or loss. Financial assets not classified as fair value through profit and loss are initially measured at fair value plus transaction costs.

1 Accounting policies **(Continued)**

Financial assets held at amortised cost

Financial instruments are classified as financial assets measured at amortised cost where the objective is to hold these assets in order to collect contractual cash flows, and the contractual cash flows are solely payments of principal and interest. They arise principally from the provision of goods and services to customers (eg trade receivables). They are initially recognised at fair value plus transaction costs directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment where necessary.

Impairment of financial assets

Financial assets carried at amortised cost and FVOCI are assessed for indicators of impairment at each reporting end date.

The expected credit losses associated with these assets are estimated on a forward-looking basis. A broad range of information is considered when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

1.6 Financial liabilities

The company recognises financial debt when the company becomes a party to the contractual provisions of the instruments. Financial liabilities are classified as either 'financial liabilities at fair value through profit or loss' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss

Other financial liabilities

Other financial liabilities, including borrowings, trade payables and other short-term monetary liabilities, are initially measured at fair value net of transaction costs directly attributable to the issuance of the financial liability. They are subsequently measured at amortised cost using the effective interest method. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company’s obligations are discharged, cancelled, or they expire.

1.7 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.8 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

1 Accounting policies **(Continued)**

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.9 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of inventories or non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee’s services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.10 Retirement benefits

The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method, and is based on actuarial advice.

The change in the net defined benefit liability arising from employee service during the year is recognised as an employee cost. The cost of plan introductions, benefit changes, settlements and curtailments are recognised as an expense in measuring profit or loss in the period in which they arise.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Remeasurement changes comprise actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability excluding amounts included in net interest. These are recognised immediately in other comprehensive income in the period in which they occur and are not reclassified to profit and loss in subsequent periods.

The net defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information, and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

1 Accounting policies **(Continued)**

1.11 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

2 Critical accounting estimates and judgements

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Key sources of estimation uncertainty

Defined benefit pension obligation

The valuation of the defined benefit pension obligation is inherently subjective due to among other factors, future inflation, mortality rates and salary increases. As a result the valuation of the obligation is subject to a significant degree of uncertainty and is made on assumptions which may not prove to be accurate, particularly in periods of market volatility and fluctuating inflation.
The value of the defined benefit pension asset or obligation is appraised each year by an independent external actuary. This estimate uses assumptions based on payroll records for the year and known market trends.

3 Revenue

	2023	**2022**
	£	**£**
Revenue analysed by class of business		
Secondment costs for pension investment and administration services	7,309,586	5,853,139

4 Operating loss

	2023	**2022**
Operating loss for the year is stated after charging/(crediting):	**£**	**£**
Fees payable to the company's auditor for the audit of the company's financial statements	10,120	9,200

5 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2023 Number	2022 Number
	98	83

Their aggregate remuneration comprised:

	2023 £	2022 £
Wages and salaries	5,299,244	4,239,580
Social security costs	661,322	498,693
Pension costs	858,700	715,958
	6,819,266	5,454,231

6 Directors' remuneration

	2023 £	2022 £
Remuneration for qualifying services	248,259	181,018

Three (2022: Four) directors received emoluments from the company during the period.

All other directors are employed by the City of Edinburgh Council.

7 Variable pay

The company runs three variable pay schemes, two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle staff to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 February to 31 January. The award then vests over three years. The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met. Payment one has been made in January 2023. A liability has been raised at 31 March 2023 for the two months of service which the employees have delivered with regards to the second and third payments in the scheme.

	2023	2022
	£	£
Brought forward	64,016	64,048
Current service cost	13,035	(32)
	77,051	64,016
Current liability	60,990	50,239
Non-current liability	16,061	13,777
	77,051	64,016

8 Finance costs

	2023	2022
	£	£
Net interest on net defined benefit liability	112,000	125,000
Other interest payable	3,313	956
Total interest expense	115,313	125,956

9 Income tax expense

	2023	2022
	£	£
Current tax		
UK corporation tax on profits for the current period	30,506	28,724

9 Income tax expense **(Continued)**

The charge for the year can be reconciled to the loss per the income statement as follows:

	2023 £	2022 £
Loss before taxation	(1,044,792)	(1,101,823)
Expected tax credit based on a corporation tax rate of 19.00% (2022: 19.00%)	(198,510)	(209,346)
Effect of expenses not deductible in determining taxable profit	229,016	238,437
Change in unrecognised deferred tax assets	-	(365)
Group relief	(22,984)	(28,726)
Deferred tax adjustments in respect of prior years	209,880	(209,880)
Temporary differences not recognised	664,620	382,850
Other intercompany adjustments	22,984	28,724
Deferred tax (charged)/credited directly to OCI	(874,500)	(172,970)
Taxation charge for the year	30,506	28,724

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2023 £	2022 £
Deferred tax arising on:		
Actuarial differences recognised as other comprehensive income	1,088,361	172,970

10 Trade and other receivables

	2023 £	2022 £
Trade receivables	73,831	15,802
VAT recoverable	-	1,390
Amounts owed by fellow group undertakings	934,366	755,467
Other receivables	712	-
Prepayments	14,320	1,784
	1,023,229	774,443

11 Trade and other payables

	Current		Non-current	
	2023	2022	2023	2022
	£	£	£	£
Trade payables	3,039	4,268	-	-
Amounts owed to fellow group undertakings	22,984	71,691	-	-
Accruals	134,565	166,555	16,061	13,778
Social security and other taxation	651,861	123,685	-	-
Other payables	4,609	3,429	-	-
	817,058	369,628	16,061	13,778

12 Deferred taxation

	2023	2022
	£	£
Deferred tax liabilities	213,861	-
Deferred tax assets	-	(874,500)
	213,861	(874,500)

Deferred tax assets are expected to be recovered after more than one year

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting period.

	Retirement benefit obligations	Total
	£	£
Asset at 1 April 2021	(1,047,470)	(1,047,470)
Deferred tax movements in prior year		
Charge/(credit) to profit or loss	172,970	172,970
Asset at 1 April 2022	(874,500)	(874,500)
Deferred tax movements in current year		
Charge/(credit) to profit or loss	1,088,361	1,088,361
Asset at 31 March 2023	213,861	213,861

Statutory database figures differ from the trial balance by:

Deferred tax asset at 31 March 2023	213,861
Deferred tax liability at 31 March 2023	(213,861)

13 Retirement benefit schemes

13 Retirement benefit schemes **(Continued)**

Defined benefit scheme

The company operates a defined benefit pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in the Lothian Pension Fund, an independently administered fund. The latest actuarial valuation of the fund was completed on 31 March 2020. At this date the funds assets were sufficient to meet 117.7% of the liabilities.

Valuation

Although LPFE is an "admitted" rather than "scheduled" body to LGPS, it is presumed that membership of LGPS would always be open to LPFE employees and therefore its employer membership of LPF would never terminate. Should, however, this not be the case and a future cessation of LPFE membership did occur, then a cessation valuation would be carried out in accordance with LPF's Funding Strategy Statement. The basis of such valuation by carried out by the Fund actuary would differ from IAS19 assumptions

Key assumptions	**2023** **%**	**2022** **%**
Discount rate	4.8	2.8
Pension growth rate	3	3.2
Salary growth rate	3.5	3.7

Mortality assumptions Assumed life expectations on retirement at age 65:	**2023** **Years**	**2022** **Years**
Retiring today		
- Males	19.9	20.3
- Females	22.9	23.1
Retiring in 20 years		
- Males	21.2	21.6
- Females	24.7	25

Amounts recognised in the income statement	**2023** **£**	**2022** **£**
Current service cost	1,930,000	1,872,000
Net interest on defined benefit liability/(asset)	112,000	125,000
Total costs	2,042,000	1,997,000

13 Retirement benefit schemes **(Continued)**

Amounts recognised in other comprehensive income	**2023** **£**	**2022** **£**
Actuarial changes arising from changes in demographic assumptions	(119,000)	(119,000)
Actuarial changes arising from changes in financial assumptions	(10,309,000)	(1,894,000)
Actuarial changes related to plan assets	(22,000)	(1,316,000)
Other gains and losses	858,000	33,000
Total costs/(income)	(9,592,000)	(3,296,000)

The amounts included in the statement of financial position arising from the company's obligations in respect of defined benefit plans are as follows:

	2023 **£**	**2022** **£**
Present value of defined benefit obligations	13,038,000	19,883,000
Fair value of plan assets	(17,904,000)	(16,385,000)
(Surplus)/deficit in scheme	(4,866,000)	3,498,000

Movements in the present value of defined benefit obligations	**2023** **£**	**2022** **£**
At 1 April 2022	19,883,000	19,361,000
Current service cost	1,930,000	1,872,000
Benefits paid	(124,000)	(67,000)
Contributions from scheme members	343,000	279,000
Actuarial gains and losses	(10,428,000)	(2,013,000)
Interest cost	576,000	418,000
Other	858,000	33,000
At 31 March 2023	13,038,000	19,883,000

The defined benefit obligations arise from plans funded as follows:	**2023** **£**	**2022** **£**
Wholly unfunded obligations	-	-
Wholly or partly funded obligations	13,038,000	19,883,000
	13,038,000	19,883,000

13 Retirement benefit schemes (Continued)

Movements in the fair value of plan assets:	2023 £	2022 £
At 1 April 2022	16,385,000	13,848,000
Interest income	464,000	293,000
Return on plan assets (excluding amounts included in net interest)	22,000	1,316,000
Benefits paid	(124,000)	(67,000)
Contributions by the employer	814,000	716,000
Contributions by scheme members	343,000	279,000
At 31 March 2023	17,904,000	16,385,000

Sensitivity of the defined benefit obligations to changes in assumptions

Scheme obligations would have been affected by changes in assumptions as follows:

		2023 £'000	2022 £'000
0.1% decrease in real discount rate	- increase	342	516
	- decrease	-342	-516
0.1% increase in the salary increase rate	- increase	56	89
	- decrease	-56	-89
0.1% increase in the pension increase rate	- increase	291	422
	- decrease	-291	-422

The fair value of plan assets at the reporting period end was as follows:

	Quoted 2023 £	Unquoted 2023 £	Quoted 2022 £	Unquoted 2022 £
Equity instruments	10,101,300	-	9,134,000	-
Debt instruments	2,728,700	-	1,738,200	-
Property	143,800	691,500	152,600	718,200
Investment funds and unit trusts	238,400	3,084,000	589,600	2,133,400
Derivatives	800	-	800	-
Private equity	11,200	58,700	1,700	75,300
Cash and cash equivalents	845,600	-	1,841,200	-
	14,069,800	3,834,200	13,458,100	2,926,900

14 Share capital

Ordinary share capital	2023 Number	2022 Number	2023 £	2022 £
Issued and fully paid				
of £1 each	1	1	1	1

14 Share capital **(Continued)**

15 Retained earnings

	2023 £	2022 £
At the beginning of the year	(2,207,933)	(4,200,416)
Loss for the year	(1,075,298)	(1,130,547)
Actuarial differences recognised in other comprehensive income	9,592,000	3,296,000
Tax on actuarial differences	(1,088,361)	(172,970)
At the end of the year	5,220,408	(2,207,933)

16 Contingent liabilities

The company's variable pay arrangements are described in note 6 above. In the event that all the staff involved in the arrangements at 31 January 2023 remain in the company's employment there is a contingent liability of £511,423 in excess of the current and non-current liabilities, as recognised in these financial statements in accordance with IAS19. This amount would be payable over two years.

17 Capital risk management

The company is not subject to any externally imposed capital requirements.

18 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, including directors, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2023 £	2022 £
Short-term employee benefits	1,302,524	930,612
Post-employment benefits	118,910	111,372
	1,421,434	1,041,984

18 Related party transactions (Continued)

Other transactions with related parties

During the year the company entered into the following transactions with related parties:

	Sale of goods		Purchase of goods	
	2023	2022	2023	2022
	£	£	£	£
Lothian Pension Fund	5,899,190	4,857,001	-	-
LPFI Limited	1,026,314	826,353	-	-
	6,925,504	5,683,354	-	-

	Interest payable	
	2023	2022
	£	£
Parent company	3,313	956

The following amounts were outstanding at the reporting end date:

Amounts due to related parties	2023 £	2022 £
Parent company	1,872	42,967
Entities with joint control or significant influence over the company	30,506	28,724
	32,378	71,691

At the balance sheet date the company owed £30,506 (*2022: £28,724*) to Edinburgh Trams Limited, a fellow group subsidiary, in relation to group tax relief payments.

The following amounts were outstanding at the reporting end date:

Amounts due from related parties	2023 £	2022 £
Lothian Fund Pension	474,065	377,493
LPFI Limited	460,301	350,477
	934,366	727,970

19 Controlling party

19 Controlling party **(Continued)**

The City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) owns all the issued share capital of the company. The company itself has been established to support the administration of the Lothian Pension Fund. Administering authorities are required to prepare separate financial statements for the Local Government Pension Scheme funds that they administer and so it is considered appropriate to consolidate the company's individual financial statements into Lothian Pension Fund's consolidated financial statements.

Group accounts are available to the public from the following address and will also be made available through the pension scheme website at www.lpf.org.uk:

Company Secretary
Lothian Pension Fund
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

20 Cash generated from/(absorbed by) operations

	2023	2022
	£	£
Loss for the year before income tax	(1,044,792)	(1,101,823)
Adjustments for:		
Finance costs	115,313	125,956
Pension scheme non-cash movement	1,116,000	1,156,000
Movements in working capital:		
Increase in trade and other receivables	(250,176)	(40,943)
Increase/(decrease) in trade and other payables	451,103	(411,269)
Cash generated from/(absorbed by) operations	387,448	(272,079)

Appendix 4

Company registration number SC497542 (Scotland)

LPFI LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

LPFI LIMITED

COMPANY INFORMATION

Chairman	Mr H Dunn
Executive Directors	Ms K Thirkell Mr J Burns Mr W B Miller Mr D S Vallery
Non-Executive Directors	Mr A Marchant Mr L Robb
Company number	SC497542
Registered office	4th Floor Saltire Court 20 Castle Terrace Edinburgh Lothian EH1 2EN
Auditor	Azets Audit Services Exchange Place 3 Semple Street Edinburgh United Kingdom EH3 8BL

LPFI LIMITED

CONTENTS

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2023

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company’s transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

LPFI LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2023

The directors present their annual report and financial statements for the year ended 31 March 2023.

Principal activities

The current principal activity of the company is the provision of Financial Conduct Authority ("FCA") regulated investment services to the City of Edinburgh Council acting in its capacity as the administering authority of the Lothian Pension Fund) ("LPF") and other Local Government Pension Scheme funds in Scotland and Northern Ireland.

Results and dividends

The profit for the year after tax was £32,622 (2022: £32,459). The directors do not recommend payment of a dividend.

The company's aim is to make a modest trading surplus.

Under the mutual trading agreement with LPF, the company is required to consider if any of the profit arising from the mutual trade can be returned to LPF. Company Law requires that only "distributable profits" are available for distribution. None of the profit for the year is attributable to the mutual trade.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr. H Dunn	
Mr. A Marchant	
Mr. S Fairbairn	(Resigned 14 September 2022)
Mr. J Burns	(Resigned 31 May 2023)
Mr. W B Miller	
Mr L Robb	
D S Vallery	
Ms K J Thirkell	(Appointed 16 September 2022)

Statement of disclosure to auditor

Each director in office at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board

....

Mr. H Dunn

Director

Date: ....

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LPFI LIMITED

Opinion

We have audited the financial statements of LPFI Limited (the 'company') for the year ended 31 March 2023 which comprise the income statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the Financial Reporting Council's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the entity, its activities, its control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the entity is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts by the entity that were contrary to applicable laws and regulations, including fraud.

In response to the risk of irregularities and non-compliance with laws and regulations, including fraud, we designed procedures which included:

- Enquiry of management and those charged with governance around actual and potential litigation and claims as well as actual, suspected and alleged fraud;
- Reviewing minutes of meetings of those charged with governance;
- Assessing the extent of compliance with the laws and regulations considered to have a direct material effect on the financial statements or the operations of the company through enquiry and inspection;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Performing audit work over the risk of management bias and override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for indicators of potential bias.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nick Bennett ACA (Senior Statutory Auditor)
For and on behalf of Azets Audit Services

Date: ....

Chartered Accountants
Statutory Auditor

Exchange Place 3
Semple Street
Edinburgh
United Kingdom
EH3 8BL

LPFI LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £	2022 £
Revenue	**2**	1,873,534	1,515,239
Gross profit		1,873,534	1,515,239
Administrative expenses		(1,849,268)	(1,480,917)
Operating profit	**3**	24,266	34,322
Investment revenues	**5**	17,921	-
Finance costs	**6**	(1,913)	-
Profit before taxation		40,274	34,322
Income tax expense	**7**	(7,652)	(1,863)
Profit and total comprehensive income for the year	**12**	32,622	32,459

LPFI LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

	Notes	2023 £	2022 £
Current assets			
Trade and other receivables	**8**	725,218	505,145
Current tax recoverable		4,658	4,658
Cash and cash equivalents		1,092,784	832,340
		1,822,660	1,342,143
Current liabilities			
Trade and other payables	**10**	834,630	488,622
Current tax liabilities		1,887	-
Borrowings	**9**	100,000	-
		936,517	488,622
Net current assets		886,143	853,521
Net assets		886,143	853,521
Equity			
Called up share capital	**11**	690,378	690,378
Retained earnings	**12**	195,765	163,143
Total equity		886,143	853,521

The financial statements were approved by the board of directors and authorised for issue on .... and are signed on its behalf by:

....
Mr. H Dunn
Director

Company registration number SC497542

LPFI LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Share capital £	Retained earnings £	Total £
Balance at 1 April 2021		590,378	130,684	721,062
Year ended 31 March 2022:				
Profit and total comprehensive income for the year		-	32,459	32,459
Transactions with owners in their capacity as owners:				
Issue of share capital	**11**	100,000	-	100,000
Balance at 31 March 2022		690,378	163,143	853,521
Year ended 31 March 2023:				
Profit and total comprehensive income for the year		-	32,622	32,622
Balance at 31 March 2023		690,378	195,765	886,143

LPFI LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2023

		2023		2022	
	Notes	**£**	**£**	**£**	**£**
Cash flows from operating activities					
Cash generated from operations	**15**		148,759		156,829
Interest paid			(471)		-
Income taxes paid			(5,765)		(13,577)
Net cash inflow from operating activities			142,523		143,252
Investing activities					
Interest received		17,921		-	
Net cash generated from/(used in) investing activities			17,921		-
Financing activities					
Proceeds from issue of shares		-		100,000	
New borrowings		100,000		-	
Net cash generated from financing activities			100,000		100,000
Net increase in cash and cash equivalents			260,444		243,252
Cash and cash equivalents at beginning of year			832,340		589,088
Cash and cash equivalents at end of year			1,092,784		832,340

1 Accounting policies

Company information

LPFI Limited is a private company limited by shares incorporated in Scotland. The registered office is 4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, Lothian, EH1 2EN. The company's principal activities and nature of its operations are disclosed in the directors' report.

1.1 Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, except as otherwise stated.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Revenue

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue is derived wholly from the provision of FCA-regulated service in the United Kingdom. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined with reference to contractual rates as labour hours and direct expenses are incurred.

All revenue is stated net of the amount of value added tax (VAT).

1.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.5 Financial assets

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. Financial assets are classified into specified categories, depending on the nature and purpose of the financial assets.

At initial recognition, financial assets classified as fair value through profit and loss are measured at fair value and any transaction costs are recognised in profit or loss. Financial assets not classified as fair value through profit and loss are initially measured at fair value plus transaction costs.

1 Accounting policies **(Continued)**

Financial assets held at amortised cost

Financial instruments are classified as financial assets measured at amortised cost where the objective is to hold these assets in order to collect contractual cash flows, and the contractual cash flows are solely payments of principal and interest. They arise principally from the provision of goods and services to customers (eg trade receivables). They are initially recognised at fair value plus transaction costs directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment where necessary.

Impairment of financial assets

Financial assets carried at amortised cost and FVOCI are assessed for indicators of impairment at each reporting end date.

The expected credit losses associated with these assets are estimated on a forward-looking basis. A broad range of information is considered when assessing credit risk and measuring expected credit losses, including past events, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

1.6 Financial liabilities

The company recognises financial debt when the company becomes a party to the contractual provisions of the instruments. Financial liabilities are classified as either 'financial liabilities at fair value through profit or loss' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss

Other financial liabilities

Other financial liabilities, including borrowings, trade payables and other short-term monetary liabilities, are initially measured at fair value net of transaction costs directly attributable to the issuance of the financial liability. They are subsequently measured at amortised cost using the effective interest method. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company’s obligations are discharged, cancelled, or they expire.

1.7 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.8 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

1 Accounting policies **(Continued)**

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.9 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of inventories or non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.10 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

2 Revenue

	2023	2022
	£	£
Revenue analysed by class of business		
Investment advisory and management services	1,873,534	1,515,239

3 Operating profit

Operating profit for the year is stated after charging/(crediting):	2023 £	2022 £
Fees payable to the company's auditor for the audit of the company's financial statements	9,900	9,000

4 Directors' remuneration

	2023 £	2022 £
Remuneration for qualifying services	25,000	25,000

The aggregate payroll costs for the year consisted of fees paid to non-executive directors.

No pension benefits were accrued by the directors during the year. All other staff and directors are employed by LPFE Limited, a company under common control, and an appropriate portion of their employment costs recharged. The amounts of the recharge are disclosed in note 13 Related party transactions.

5 Investment income

	2023 £	2022 £
Interest income		
Financial instruments measured at amortised cost:		
Other interest income on financial assets	17,921	-

Income above relates to assets held at amortised cost, unless stated otherwise.

6 Finance costs

	2023 £	2022 £
Other interest payable	1,913	-

7 Income tax expense

	2023 £	2022 £
Current tax		
UK corporation tax on profits for the current period	7,652	1,863

7 Income tax expense (Continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2023 £	2022 £
Profit before taxation	40,274	34,322
Expected tax charge based on a corporation tax rate of 19.00% (2022: 19.00%)	7,652	6,521
Adjustment in respect of prior years	-	(4,658)
Taxation charge for the year	7,652	1,863

8 Trade and other receivables

	2023 £	2022 £
Trade receivables	677,035	453,531
Amounts owed by fellow group undertakings	41,907	49,650
Other receivables	3,822	254
Prepayments	2,454	1,710
	725,218	505,145

9 Borrowings

	2023 £	2022 £
Borrowings held at amortised cost:		
Loans from fellow group undertakings	100,000	-

This is an unsecured loan from LPF, this is payable on demand.

10 Trade and other payables

	2023 £	2022 £
Trade payables	7,451	6,837
Amounts owed to fellow group undertakings	787,260	415,891
Accruals	21,753	59,502
Social security and other taxation	16,724	6,392
Other payables	1,442	-
	834,630	488,622

11 Share capital

	2023	2022	2023	2022
Ordinary share capital	**Number**	**Number**	**£**	**£**
Issued and fully paid				
Ordinary shares of £1 each	690,378	690,378	690,378	690,378

12 Retained earnings

	2023 £	2022 £
At the beginning of the year	163,143	130,684
Profit for the year	32,622	32,459
At the end of the year	195,765	163,143

13 Related party transactions

Remuneration of key management personnel
Compensation paid in relation to key management personnel during the period was as follows:

	2023 £	2022 £
Directors' remuneration (note 4)	25,000	25,000

All other key management personnel are employed by LPFE Limited, a company also under the control of Lothian Pension Fund (administered by the City of Edinburgh Council), and the City of Edinburgh Council. In addition to the compensation noted above, the company was also charged £114,512 (2022: £111,015) for services provided by key management personnel employed by LPFE Limited during the year.

Other transactions with related parties
During the year the company entered into the following transactions with related parties:

	Sale of goods		Purchase of goods	
	2023 £	2022 £	2023 £	2022 £
Lothian Pension Fund	386,817	284,161	321,194	217,407
LPFE Limited	-	-	1,026,315	826,353
	386,817	284,161	1,347,509	1,043,760

13 Related party transactions **(Continued)**

Amounts due to related parties	**2023 £**	**2022 £**
Lothian Pension Fund	421,194	31,396
Entities with joint control or significant influence over the company	-	6,521
LPFE Limited	460,301	377,974
	881,495	415,891

At the balance sheet date the company owed £6,521 (2021: £Nil) to Edinburgh Trams Limited, a fellow group subsidiary, in relation to group tax relief payments.

Amounts due from related parties	**2023 £**	**2022 £**
Lothian Pension Fund	41,907	49,650

14 Controlling party

The City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) owns all the issued share capital of the company. The company itself has been established to support the administration of the Lothian Pension Fund. Administering authorities are required to prepare separate financial statements for the Local Government Pension Scheme funds that they administer and so it is considered appropriate to consolidate the company's individual financial statements into Lothian Pension Fund's consolidated financial statements.

Group accounts are available to the public from the following address and will also be made available through the pension scheme website at www.lpf.org.uk:

Company Secretary
Lothian Pension Fund
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

15 Cash generated from operations

	2023	2022
	£	£
Profit for the year before income tax	40,274	34,322
Adjustments for:		
Finance costs	1,913	-
Investment income	(17,921)	-
Movements in working capital:		
(Increase)/decrease in trade and other receivables	(220,073)	51,947
Increase in trade and other payables	344,566	70,560
Cash generated from operations	148,759	156,829

Appendix 5

Azets Audit Services Limited

Exchange Place 3

Semple Street

Edinburgh

EH3 8BL

Re: Lothian Pension Fund and Scottish Homes Pension Fund

Dear Sirs

This representation letter is provided in connection with your audit of the Lothian Pension Fund and Scottish Homes Pension Fund ('the Funds') Annual Report and Accounts for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Funds during the year to 31 March 2023 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the period) in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Financial Reporting Standards as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting 2022/23 in the United Kingdom and making a statement about contributions.

By a resolution of the board, passed today, I am directed to confirm to you, in respect of the financial statements of the Funds (and its group) for the period ended 31 March 2023, the following:

GENERAL

1. We have fulfilled our responsibilities for preparing financial statements in accordance with the Local Government (Scotland) Act 1973, the Code of Practice on Local Authority Accounting in the United Kingdom, and International Financial Reporting Standards and for being satisfied that they give a true and fair view and for making accurate representations to you.
2. All the transactions undertaken by the Funds have been properly reflected and recorded in the accounting records.
3. All the accounting records have been made available to you for the purpose of your audit. We have provided you with unrestricted access to all appropriate persons within the Funds, and with all other records and related information requested, including minutes of all management and Committee meetings.

ADJUSTMENTS & DISCLOSURES

4. The financial statements are free of material misstatements, including omissions.
5. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. (See appendix 1 for details of such uncorrected misstatements).
6. We have reviewed and approved all disclosures made in the financial statements and we are not aware of any other matters which require disclosure in order to comply with the requirements of the Local Government (Scotland) Act 1973, the Code of Practice on Local Authority Accounting in the United Kingdom, and International Financial Reporting Standards.

INTERNAL CONTROL AND FRAUD

7. We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.
8. We have disclosed to you all instances of known or suspected fraud affecting the Funds involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
9. We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting Funds' financial statements communicated by current or former employees, analysts, regulators or others.

10. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we deem necessary to address the likely effects of the COVID-19 pandemic on our system of internal controls.

ASSETS AND LIABILITIES

11. The Funds have satisfactory title to all assets and there are no liens or encumbrances on the Funds' assets except for those that are disclosed in the notes to the financial statements.
12. There were no changes in investment assets or fixed assets during the period ended 31 March 2023 other than those disclosed in the accounts.
13. The assumptions that have been used in determining fair values, whether such values are disclosed or applied in the financial statements, are reasonable and reflect our ability and intent to carry out specific courses of action, where this is relevant to the determination of those values.
14. Where required, the value at which assets and liabilities are recorded in the net assets statement is, in our opinion, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Funds. Any significant changes in those values since the accounting reference date have been disclosed to you.
15. The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:
    a. losses arising from sale and purchase commitments;
    b. agreements and options to buy back assets previously sold;
    c. assets pledged as collateral.
16. We have reviewed the residual values attached to fixed assets and confirm they are still appropriate and reasonable reflections of these assets' condition and usage.
17. All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
18. We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.
19. We confirm that all bank accounts have been disclosed to you and are included within the financial statements.
20. We confirm that the Funds have not contracted for any capital or investment expenditure other than as disclosed in the financial statements.

ACCOUNTING ESTIMATES

21. The methods, data and significant assumptions used by us in making accounting estimates, and their related disclosures, are appropriate to achieve recognition, measurement and disclosure that is reasonable in the context of the applicable financial reporting framework.

LEGAL CLAIMS

22. We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.

LAWS AND REGULATIONS

23. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements and disclosures, including non-compliance matters:
    a. Involving financial impropriety;
    b. Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Funds' financial statements;
    c. Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Funds' business, its ability to continue in business, or to avoid material penalties; and
    d. Involving management, or employees who have significant roles in internal control, or others.
24. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies, Scottish Government or Scottish Ministers concerning investigations or allegations of non-compliance, other than those already disclosed.

RELATED PARTIES

25. Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and we confirm that such information is complete. We are not aware of any other matters which require disclosure in order to comply with the requirements of company law or accounting standards.
26. All transactions undertaken with group companies, including management charges, are at arm's length.

SUBSEQUENT EVENTS

27. All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

GOING CONCERN

28. We believe that the Funds' financial statements should be prepared on a going concern basis on the grounds that sufficient funding is available to the Funds to support the anticipated continuation of the provision of services.
29. We also confirm our plans for future action(s) required to enable the Funds to continue as a going concern are feasible.
30. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the Funds' ability to continue as a going concern need to be made in the financial statements.
31. The implications of the Covid-19 pandemic continue to create uncertainty and it is therefore difficult to evaluate the likely effect on the Funds' activities and the wider economy. Our assessment at the date of approval of these accounts is that the pandemic does not create a material uncertainty related to going concern. Note 1 to the financial statements discloses matters of which we are aware that are relevant to the Funds' ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

DISCLOSURE OF INFORMATION TO THE AUDITOR

32. We acknowledge our legal responsibilities regarding disclosure of information to you as auditor and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

33. Each member of the Pensions Committee has taken all the steps that they ought to have taken as a member in order to make themself aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

....

Signed on behalf of the Funds' by:

Hugh Dunn

Service Director: Finance and Procurement, The City of Edinburgh Council

(Section 95 Officer for the Pension Funds)

Date: 27 September 2023

The above director is signing this letter on behalf of all directors confirming that:

so far as they are each aware, there is no relevant audit information of which the Funds' auditors are unaware; and each Director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of the Funds' auditors for that purpose, in order to be aware of any information needed by the Funds' auditors in connection with preparing their report and to establish that the Funds' auditors are aware of that information.

Appendix 1

SCHEDULE OF UNCORRECTED MISTATEMENTS

Journals				Net Assets Statement		Fund Account Statement	
				Increase (£'000)	Decrease (£'000)	Decrease (£'000)	Increase (£'000)
	1	Dr	Actuarial gains/losses			4,866	
		Cr	Retirement benefit asset		4,866		
P.100		Being:	Reduction of LPFE pension asset to the asset ceiling value				
			Total	-	4,866	4,866	-
			Net effect	-	4,866		4,866