



Pensions Committee

1.30pm, Tuesday, 5 December 2023

Business Plan and Budget Update

Item number 6.3

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note progress of the Fund against the 2023-2024 Business Plan, together with specific updates on:
 - 1.1.1 performance indicators
 - 1.1.2 membership and cashflow monitoring

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Business Plan and Budget Update

2. Purpose

- 2.1 The purpose of this report is to provide an update on progress against the 2023-2024 Strategy and Business Plan, performance indicators and the actions to enable the Fund to meet its key objectives.

3. Executive Summary


- 3.1 The 2023-2024 Strategy and Business Plan centres around four broadly defined strategic goals, each with more detailed objectives and accompanying targets and measures to allow us to monitor our progress and identify where interventions may be required.
- 3.2 They are:
- 3.2.1 Develop and deliver a member and employer proposition for service excellence.
 - 3.2.2 Earn an appropriate risk adjusted investment return as responsible investors.
 - 3.2.3 Extend collaboration and services to existing partners and deepen where possible.
 - 3.2.4 Achieve greatness in our people, teams and culture.
- 3.3 The plan set out the work plans, budget and targets for 2023-24 and formed the base line against which performance would be and has been judged.
- 3.4 Matters to highlight in the main body of the report are:
- 3.4.1 All KPI's are on target at 30th September, with the exception of a number of administration categories that are being actively managed (***discussed in 4.2***).
- 3.5 Progress continues on process enhancements and accreditations. Work has continued on the triennial valuation, with training provided for Pension Committee and Board, and initial results shared with employers. A full paper is included in Agenda item 9.1
- 3.6 The quarter to September continued the trend in increasing the asset allocation to Real Assets from Cash (4.15-4.20]
- 3.7 Sub-division work on the new office is complete, with fit-out work now on-going. The expected move date continues to be in Spring 2024 (4.43)

3.8 Forecasted financial outturn to 31 March 2024 (section 5) shows a projected £2,024k saving against original budget. The two main contributors are savings from in-housing the investment management from Harris and the reduction in costs from the pausing of Project Forth.

4. Main Report

4.1 LPF's year to date progress against its key performance metrics, laid out in 2023-2024 Strategy and Business plan, are detailed below.

	Q1 April to June	Q2 July to Sept	Target	Status
Customer Satisfaction, as measured by employers and members through survey results > 90% (12 month rolling)	93.9%	91.3% (YTD 91.3%)	90%	✓
>92% of pensions administration work completed within standards	87.92%	87.43% (YTD 87.61%)	92%	⚠
Data Quality, as defined by the Pensions Regulator achieve "common" and "conditional" data scores in excess of 95% and 95% respectively. The data is assessed as at 31 August 2023 (members' Annual Benefit Statements)	Pass		Pass	✓
The Fund operates within the approved budget	Within	Within (YTD Within)	Withi n	✓
The audit of the Annual Report is unqualified	Unqualified		Unqu alified	✓
Rolling 10-year fund return is >+5% pa unless the benchmark is <+5%pa, in which case, the relative return is positive	Pass	Pass (YTD Pass)	Pass	✓
Publish ENGAGE, Revised SIP and SRIP	Pass	Pass (YTD Pass)	Pass	✓
Mandatory LMS training completion rate >90%	100%	100% (YTD 100%)	90%	✓
The Employee Engagement index KPI of 70% or above	79%	74% (YTD 74%)	70%	✓

	Q1 April to June	Q2 July to Sept	Target	Status
Less than 10% unplanned employee turnover	9.2%	6.1% (YTD 6.1%)	10%	

4.2 The Business plan also lays out functional plans for each team. Below provides further insight of each team progress towards these goals.

Operations - Pension Administration performance indicators

4.3 Overall, Pension Administration are marginally below target year to date. A number of factors have contributed to this including:

4.3.1 Workforce includes a large number of trainees. Trainees require daily support, time out to study towards exams and also require work to be checked by a senior administrator which can result in delays to workflows. Changes have been made to address these issues including the appointment of 2 new coaching roles (from existing headcount) to assist trainees with day to day queries, increasing capacity for checking and creating a dedicated training resource to upskill less experienced staff.

4.3.2 Due to secondments, creation of coach roles from our qualified administrator pool and permanent leavers, the Fund has lost some experienced colleagues from the operations teams. In the short term, this is impacting our available resources to administer our complex cases. Active recruitment activity and training are underway to backfill these gaps. To adapt to these challenges improved workflows have been introduced with a case ownership model introduced, resulting in a single point of contact for customers and a more efficient use of our resources. Daily check ins by each team manager are helping to address any workload issues and to ensure work priorities are being met.

Accreditation

4.4 The Fund has held the Customer Service Excellence (CSE) standard for a number of years. To achieve CSE accreditation an independent assessment takes place against 5 sets of criteria and 57 separate elements. These are then assigned a rating – non-compliant, partial compliant, compliant or compliant plus.

4.5 LPF’s on-site assessment took place in March 2023. The assessor evaluated evidence with regards to processes and service delivery, observing the interaction the Fund has with its members and employers. Not only did the Fund retain its fully compliant status but an additional 2 compliance plus levels were awarded bringing its total to 9 at the highest recognition level.

- 4.6 LPF has held the Pensions Administration Standards Association (PASA) accreditation since 2017. To achieve the award, an independent assessment against 10 sets of criteria and standards takes place. In October, a comprehensive submission has been provided to the independent assessors as per the requirements of the triannual review with detailed supporting evidence. This is followed by a site visit in November to validate this evidence through observation and interviews with a random selection of colleagues across all teams. A final review with recommendations is expected by the end of the calendar year.

Customer Experience Team

- 4.7 Through a combination of group events and Customer Journey Mapping the Fund has been reviewing some of its key procedures, with particular focus on death and retirement processes.
- 4.8 As a result of reviewing the experience of bereaved members, improvements and efficiencies have been found within the death procedure, including the option to upload documents securely on our website which links directly to the pension system itself and the associated member's record.

Digital Enhancements

- 4.9 After a successful trial with Crown Agents Bank (CAB), a new digital process for overseas pensioners to complete their annual existence check was rolled out between October 2022 and March 2023. The new process allows members to complete the exercise from home using their laptop or mobile device by taking a live photo of themselves and their photo ID. 91% of members completed the exercise with 88% doing so using the digital process. This year's exercise is now underway, and we are confident of increased numbers of pensioners using the new digital option that is available. A proactive exercise to assist first time users has been undertaken.
- 4.10 The Fund is now investigating the possibility of switching its overseas payment services to CAB. This could provide considerable benefit to our members including more favourable exchange rates on payments and greater self-service functionality through the CAB portal.

Actuarial Valuation

- 4.11 Work is progressing on the valuation. A specific paper with proposals for contribution rates and other funding variables is included under Agenda item 9.1.

Employer Performance

- 4.12 Pensions Committee approved a revised Funding Strategy Statement (FSS) in June 2023. As required under the scheme regulations, a consultation exercise was carried out with Fund employers. No responses were received.

- 4.13 The revised FSS amended the salary strain recharging mechanism to provide that a review of each employer’s funding position would be carried out in tandem with the annual salary strain exercise. The results of this review will then determine the level of salary strain recharged to the employer.
- 4.14 As this change has retrospective effect (from December 2022), fund officers have engaged the actuary to carry out a review at that date. When the results have been received, officers will review charges levied to employers for the 2022 exercise.
- 4.15 The Fund’s employer services team continues to support employers by providing training and guidance on their roles and responsibilities under the regulations. Training has been delivered to five employers, with further training planned and positive feedback has been gained from employers on efforts introduced to simplify processes. An employer event has also been arranged in November with approximately 60 employers expected to attend.
- 4.16 An example of this is the introduction of a simplified process for submitting information for members leaving the fund before retirement, previously advised to Committee in June 2023. This process reduces work for employers and as a result employer performance for submitting early leaver information has improved significantly.

McCloud

- 4.17 McCloud rectification comes into effect from 1 October 2024. We believe we are well placed to implement the requirements.
- 4.18 Employer data collection and cleansing continues to take place using the Altair Insights dashboard tool. Through data testing, records in the pensions system have been identified for corrections before revised McCloud calculations take place. The outputs of these quotations will allow the Fund to check records to ensure the underpin calculation is correct and obtain clarity as to the level of assistance required to correct errors and check underpins.

Pensions Dashboard

- 4.19 The UK Government’s vision is that the Pensions Dashboard will enable individuals to assess their pensions information online, securely, and in one place to support better planning for retirement and growing financial well-being. Lothian Pension Fund, as a data provider will be compelled to supply data to the ecosystem once live.
- 4.20 The timeline for this has now been delayed and the government announced this date has been extended until 31 October 2026, a further year later than initially indicated. The parliamentary under-secretary of state for pensions stated “more time is needed to deliver this complex build and for the pensions industry to help

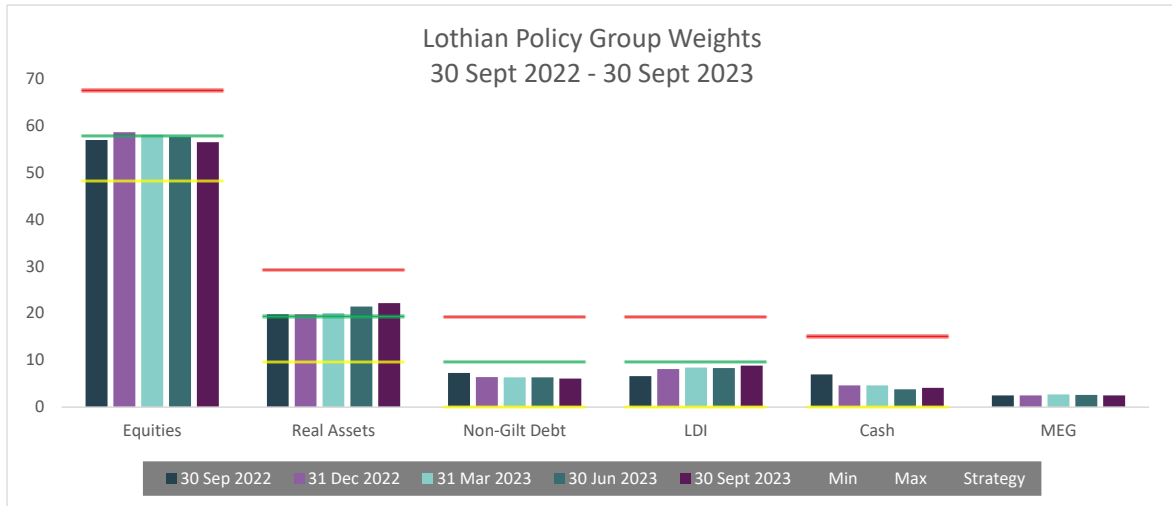
facilitate the successful connection of a wide range of different IT systems to the dashboards digital architecture. We await further guidance and detail whilst we continue to improve the quality of the data we hold for all our members. The quality of our data exceeds the requirements as set down by The Pensions Regulator and our annual return reflects this. We maintain these high standards through a variety of actions including updates to members, participating in anti-fraud initiatives and tracing exercises.

Investments - Asset Allocation

- 4.21 The fund's assets broken down by policy group at 30 September 2023 are shown in the table below.

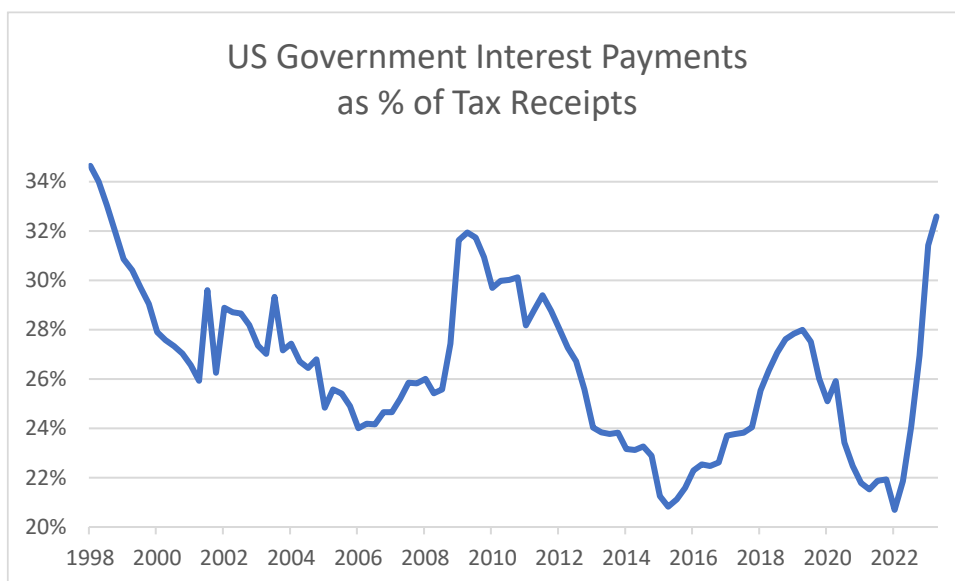
30 June 2023 £'000	Policy Groups	30 September 2023 £'000
5,476,284	Equities	5,362,801
2,037,823	Real Assets	2,101,409
599,634	Non Gilt Debt	575,406
793,926	LDI (Gilts)	836,455
243,236	MEG (Mature Employer Gilts)	232,502
448,097	Cash	392,222
9,515,801	Total	9,500,795

- 4.22 There was very little change in the asset value at the total level. Changes in market values, interest and dividend income, and investment activity caused greater changes to policy group values. The fund's Equities and Real Assets increased by approximately 1%, Non-Gilt Debt fell marginally, and Gilts declined by over 10%. The fund reduced exposure to equities and cash, and increased exposure to real assets and especially gilts over the quarter. Relative to the strategic asset allocation, the fund (as at 30.9.23) was underweight Equities, Non-Gilt Debt and LDI, and overweight Real Assets and Cash.
- 4.23 The green lines in the bar chart below represent the strategic target for each policy group and the yellow and red lines show the ranges within which officers are permitted to operate. The bars show the trends in weightings to the five policy groups and MEG (mature employer group) over the last few quarters to end September 2023. All policy groups remain comfortably within the agreed ranges. In the event that the policy group weights move outwith those ranges, officers are required to report this to the Pensions Committee and agree what action to take.



Activity

- 4.24 The main changes to asset allocation over the last several quarters have been the increase in the weight to Real Assets and LDI (index-linked gilts) and the reduction in Equities and Cash.
- 4.25 After a long period of being underweight index-linked gilts, prices have weakened very significantly and once again offer a reasonable long term real yield, hence the increased weight. In the Real Asset policy group, the fund has continued invest consistently in a diverse range of infrastructure and property assets with some prices having weakened in recent quarters as a result of the sharp rise in interest rates.
- 4.26 It seems likely that the major central banks will be successful at slowing economic growth and inflation despite government deficit spending acting in the opposite direction. One visible problem is that any benefit of the significant growth in government debt post-pandemic is likely to be transitory as higher interest rates divert cash to unproductive interest payments. If that undermines economic activity, the full consequences of rising interest rates are still to be felt in financial markets.



Source: St Louis Fed

Investment Strategy Review

- 4.27 The investment strategy review has run in parallel with the actuarial valuation. Advisers will support the Committee over the next three months with the aim of agreeing any revisions to long term strategy and benchmarks in March 2024.

Governance, Legal, Risk & Compliance - Risk Management Framework

- 4.28 The plan to improve and embed the risk management framework is progressing well with some key components developed to help operationalise the framework across the business. This includes the development of standard risk language, simplification of risk evaluation methodology, a comprehensive review and refresh of the risk register, introduction of operational functional risk profiles, and improved reporting. Additional resource with a broad remit to review and improve the existing Investment and Front Office Compliance environment has also been onboarded into the R&C team and will help drive improvements around operational efficiency and resiliency.

LPFI Internal Capital and Risk Assessment (ICARA)

- 4.29 The ICARA process is being enhanced with increased collaboration between the Risk & Compliance and Finance teams and improved integration with the risk management framework. In addition, business stakeholders have been more actively engaged in the process to ensure more thorough evaluation of plausible scenarios and informed variables has been reflected in the internal assessment of capital. As colleagues continue to evolve the process, further enhancements are expected.

Data Protection, Information Governance and Procurement

- 4.30 The Information Governance framework is being improved with the development and embedding of refreshed policies and procedures. The Risk Management Group's terms of reference have been refreshed, and now include a standing item on Information Governance metrics. This will allow effective oversight of compliance with key obligations such as: data breaches, subject access requests, data protection assessments, and freedom of information requests.
- 4.31 The roll out of a new board portal for Pensions Committee, Pensions Board and LPFE/I board meetings has been completed. This will enable meeting papers to be efficiently and securely distributed and meeting attendees to easily access and annotate them before and during meetings.
- 4.32 Incident reporting processes have been improved, with LPF-wide training sessions carried out, to ensure that all colleagues remain aware of the importance of protecting our members data, where data risks may arise, and can identify and manage potential issues.
- 4.33 Internal audit recommendations relating to the Supplier Management Framework are being tracked via issue management processes. In-line with the audit recommendations, the supplier relationship owners for Tier 1 suppliers have reviewed the exit plans and a due diligence checklist as part of their supplier monitoring responsibilities. Training will be delivered to all Fund staff later in the year.

Finance - Finance General Ledger System

- 4.34 As a result of a competitive tender process the Fund awarded a contract to Xledger (subject to an independent assurance review) to provide a finance system for LPF and its 2 companies LPFE and LPFI. Oracle (provided by CEC) is used to record LPF's financial transaction and previously Xero was used for LPFE/I.
- 4.35 A 2-stage process for implementation was agreed, with the onboarding of LPFE/I taking place in September and LPF to be onboarded at a later date. Discussions are taking place with CEC on the timings of this but it is expected to take place H1 2024.
- 4.36 Year to date financial transaction have been imported to Xledger for LPFE/I so full financial statements can be produced for the 2023/24 financial year. Training has been rolled out with staff and efficiencies are being investigated for financial and budget monitoring.

Projects - Project Forth

- 4.37 As a result of previous Committee decisions, work on Project Forth has ceased. For 2023/24 financial projection associated costs/income have been removed.

Office Relocation

4.38 The lease has been signed for the new premises, sub-division work is complete and a building contractor is expected to commence fit-out work in November, with an expected move date in Spring 2024. Final costings/timing associated with the move are being collated and will be communicated to the Committee in due course.

5. Financial impact

5.1 A summary of the projected and year-to-date financial outturn compared to the approved budget for 2023/24 is shown in the table below:

Category	Budget £'000	Projected Outturn £'000	Projected Variance £'000	Budget to date £'000	Actual to date £'000	Variance to date £'000
Employees	8,344	8,245	(99)	4,172	3,433	(739)
Transport & Premises	577	577	-	289	189	(100)
Supplies & Services	2,768	2,638	(130)	1,384	1,286	(98)
Investment Managers Fees -Invoiced	3,850	2,800	(1,050)	1,925	1,400	(525)
Other Third-Party Payments	2,583	1,427	(1,156)	1,291	632	(659)
Central Support Costs	732	732	-	366	362	(4)
Depreciation	227	227	-	114	92	(22)
Gross Expenditure	19,081	16,646	(2,435)	9,541	7,394	(2,147)
Income	(2,621)	(2,210)	411	(655)	(537)	118
Total Cost to the Funds	16,460	14,436	(2,024)	8,886	6,857	(2,029)

5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of September 2023. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.

5.3 The projection shows an underspend of approximately £2,024k. The key variances against budget are:

5.3.1 Investment Managers Fees - Invoiced - £1,050k underspend. In July the Fund terminated the externally managed mandate of Harris bringing the resulting funds into inhouse management. The CIO will review the impact of this on internal resources/staffing headcount which will be quantified in forecasting when known.

- 5.3.2 Other Third-Party Payments - £1,156k underspend. Due to the pausing of Project Forth all related costs have been removed from the forecasted outturn for the year. This accounts for a majority of the underspend.
- 5.3.3 Income - £411k below budget. As with Other Third-Party Payments below budgeted income is expected due to the pause on Project Forth. Additional costs associated with the project were expected to be shared and recharged back to Falkirk. This income has been removed from projections.
- 5.3.4 Supplies & Services – £130k underspend. Miscellaneous underspends expected for system, legal, and other costs.
- 5.4 A number of factors have contributed to a variance to date underspend of £2,029k. As above the pausing of Project Forth and the termination of the external managed Harris mandate have led to underspends in Third- Party Payments and Investment Manager Fees. Although Employee costs are forecasted to be broadly in line with budget, year to date there is a variance £739k. Ongoing recruitment exercises will reduce this underspend, however a majority of the variance will relate to variable pay arrangements payable in March. The current budget allocates an even proportion of costs to each period of the year, rather than based on when expenses are due. The Fund is looking to introduce a phased approach to budgeting in the new financial year where budget will be allocated to periods expenses due.
- 5.5 As noted in 4.35, the Fund is in the process of finalising the costings for the new premise. The current projections costs are in line with the budgeted assumptions. When finalised these, assumptions will be revised accordingly.

Membership and Cashflow monitoring

- 5.6 A high level summary of the cashflows from dealing with members as at the end of September 2023 and projections for the rest of year are shown below. These have been prepared on a cashflow basis (compared to the accruals basis of the year-end financial statements and budget projections) with prior year figures for comparison.

2022/23 Actual £'000		2023/24 YTD £'000	2023/24 Projected £'000
265,122	Contributions Received	128,824	276,000
(282,713)	Benefits Paid	(155,114)	(310,000)
(17,591)	Net Additions/(Deductions) From Dealings with Members	(26,290)	(34,000)

- 5.7 2023/24 projected cashflow is broadly in line with expectations. With Lothian Pension Fund's maturing membership profile, pensioner payments are expected

to increase over the period as pensioner numbers grow. This coupled with the pensions increase award in April of 10.1% an increase in expenditure compared to the prior year was expected.

- 5.8 While for the foreseeable future Lothian Pension Fund expects to have a negative cash flow position, whereby pension payments exceed total contributions received, current levels of investment income provide multiple cover for negative net pensions cash flow. Therefore, no asset sales will be required for the foreseeable future to fund on going pensioner payments.
- 5.9 The expectation is the contributions for 2024-2027 will be lower than current levels. As a result, a more detailed forecast of cashflows will be undertaken as part of the Business Planning exercise. To address the heightened risk, fund liquidity is likely to be subject to greater monitoring going forward, full detailed will be shared with the Committee in March.

6. Stakeholder/Regulatory Impact

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

7. Background reading/external references

- 7.1 LPF Strategy and Business Plan 2023/24
- 7.2 LPF Investment Strategy

8. Appendices

None.