



## **Pensions Committee**

2.00pm, Wednesday, 20 March 2024

### **2023/24 Business Plan and Budget Update**

**Item number 6.7**

#### **1. Recommendations**

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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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## 2023/24 Business Plan and Budget Update

### 2. Purpose

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- 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

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- 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:

- Develop and deliver a member and employer proposition for service excellence.
- Earn an appropriate risk adjusted investment return as responsible investors.
- Extend collaboration and services to existing partners and deepen where possible.
- Achieve greatness in our people, teams and culture.

- 3.3 The plan set out the work plans, budget and targets for 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 KPIs are on target as at 31 December 2023, with the exception of the pensions administration work where the performance is trending upwards, but still marginally below YTD target. **(discussed in 4.3).**
- 3.4.2 Progress continues on process enhancements and accreditations. Additional committee papers provided detailed results of Actuarial Valuation (6.3-6.4) and resulting Investment Strategy review (6.6).
- 3.4.3 The quarter to December continued the trend in increasing the asset allocation to Gilts from Cash and Equities (4.23-4.27).
- 3.4.4 Sub-division work on the new office is complete, with fit-out work underway. The expected move date continues to be in Spring 2024 (4.37).
- 3.4.5 Forecasted financial outturn to 31 March 2024 (section 5) shows a projected £2,235k saving against the original budget. The two main contributors are savings from in-housing an investment management

mandate from Harris and the reduction in costs from the cessation 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	Q3 Oct to Dec	Target	Status
<b>Customer Satisfaction, as measured by employers and members through survey results &gt; 90% (12 month rolling)</b>	93.9%	91.3%	91.5% (YTD 91.5%)	90%	
<b>&gt;92% of pensions administration work completed within standards</b>	87.92%	87.43%	91.15% (YTD 89.01%)	92%	
<b>Data Quality, as defined by the Pensions Regulator achieve "common" and "conditional" data scores in excess of 95% and 95% respectively. The data is assessed as at 31 August 2022 (members' Annual Benefit Statements)</b>	Pass			Pass	
<b>The Fund operates within the approved budget</b>	Within	Within	Within (YTD Within)	Within	
<b>The audit of the Annual Report is unqualified</b>	Unqualified			Unqualified	
<b>Rolling 10-year fund return is &gt;+5% pa unless the benchmark is &lt;+5%pa, in which case, the relative return is positive</b>	Pass	Pass	Pass (YTD Pass)	Pass	
<b>Publish ENGAGE, Revised SIP and SRIP</b>	Pass	Pass	Pass (YTD Pass)	Pass	
<b>Mandatory LMS training completion rate &gt;90%</b>	100%	100%	100% (YTD 100%)	90%	
<b>The Employee Engagement index KPI of 70% or above</b>	79%	74%	74% (YTD 74%)	70%	

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
<b>Less than 10% unplanned employee turnover</b>	9.2%	6.1%	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's progress towards these goals.

#### **Operations - Pension Administration performance indicators**

4.3 Overall, Pension Administration have achieved 92.04% on a rolling 12-month calendar year basis. They are marginally below the year-to-date target (89.01% v 92%) and several factors have contributed to this including:

- The team is currently operating below the target headcount due to recruitment challenges. There are currently 4 open unfilled roles.
- Additionally, our teams currently consist of many trainees who require daily support, time out to study towards exams, to attend training and coaching sessions and need to have their work checked by a senior administrator which results in delays to cases being completed. The appointment of 2 new coaching roles is proving beneficial to assisting our trainees with queries and are a dedicated training resource to assist in upskilling our less experienced staff.
- Furthermore, due to internal secondments, creation of coach roles from our qualified administrator pool and some leavers, the administration team has lost some experienced colleagues. This has impacted our available resources to administer our most complex cases. Active recruitment activity and training are underway to backfill these gaps and we are making solid progress towards both our operational service targets as well as developing capability and contingency within the teams. Improved workflows have been introduced alongside a case ownership model, providing 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 several 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 last 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. We are currently finalising this year's evidence for submission and an independent assessor will visit LPF on 26 March as part of this accreditation process.
- 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 was provided to the independent assessors as per the requirements of the triannual review with detailed supporting evidence. This was followed by a site visit in November to validate this evidence through observation and interviews with a random selection of colleagues from across all teams. A final review with recommendations was expected by the end of the calendar year, however, due to assessor absence there has been a delay in receiving their decision on our accreditation position. We will update the Committee as soon as this has been received.

#### **Customer Experience Team**

- 4.7 As a result of reviewing the experience of bereaved members and the use of Customer Journey Mapping, improvements and efficiencies have been introduced within the death procedure, including the option to upload documents securely on-line our website which links directly to the pension system itself and the associated member's record. A new customer satisfaction survey has been launched to gather insights and to help identify opportunities to improve their experience when interacting with us, across all channels.
- 4.8 The Member Services Coaches provide training, guidance and coaching to Member Administrators, Trainees and Assistants. The coaches updated existing and created new training slides and procedure manuals, delivering around 50 training sessions since August 2023, which covered key processes such as retirements and deaths. The coaches respond to all queries, whilst observing and assessing work activities and developing capability on an individual basis.

A training matrix combined with a skills and development plan has been created for all members of staff within the Operations Team to maintain a schedule of training needs, meet and track training requirements as well as support resource management decisions.

The coaches were used as a dedicated resource for McCloud remedy underpin checks; that all identified cases had a positive underpin and we can now progress with individual calculations for those in scope.

### **Digital Enhancements**

- 4.9 Last year a digital process, in partnership with Crown Agents Bank (CAB), was introduced for our overseas pensioners to complete their annual existence check. The new process using biometric facial recognition 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 such as a passport. This year's exercise is almost complete, and the results again have been extremely encouraging with 87% of members using the digital process method so far.
- 4.10 We have recently completed the process of transferring our overseas payment services to CAB in December 2023. Prior to the change of provider, our overseas pensioners would not receive their monthly payment until a few days after the standard payment date. Our new arrangement has allowed us to align the pension payment date for overseas members with that of our UK-based members, ensuring that all pensioners now receive their payment on the 15<sup>th</sup> of each month. We are currently working on the set up of a self-service portal to allow overseas pensioners to view their payments online.

### **Actuarial Valuation**

- 4.11 The Local Government Pension Scheme (Scotland) Regulations 2018 require the 2023 Actuarial Valuations to be completed within one year of the valuation date, i.e. by 31 March 2024. Specific papers and final valuation reports are included under Agenda items 6.4 and 6.5.

### **Employer Performance**

- 4.12 The Fund's Pensions Administration Strategy (PAS) sets out employer roles and responsibilities under the Regulations and timescales for provision of information to the Fund. Fund officers continue to provide training to employers so that they have the knowledge required to meet these requirements. An employer guide which provides more detailed guidance on administration processes has been produced and at the time of writing is under final review.
- 4.13 Officers continue to refine processes and following software upgrades and enhancements in 2023, which streamlined the early leaver process for employers, are now reviewing the retirement process. A change to the portal will allow similar efficiencies and lead to an improvement in performance.

### **AVC Review**

- 4.14 Committee will be aware that the Fund's current provider for Additional Voluntary Contributions (AVCs) is Prudential. Some members also contribute to AVCs with Standard Life, but no new members are permitted to join the Standard Life scheme. A review of the current provision will be carried out in 2024, and it is intended that this review will utilise a framework currently being developed by the

National LGPS Frameworks. Committee will be updated on progress of this review later in the year.

### **McCloud**

- 4.15 Since the employer data collection was completed, we have interfaced service changes and breaks as provided by the employers followed by preparations for the bulk underpin calculation. We have identified and updated records for all those in scope.
- 4.16 As McCloud is a material change to the scheme, we were required to contact those who are or could be affected. In December 2023, we contacted approximately 38,000 members to provide information about the remedy and to request other public sector service to bring more members into scope.
- 4.17 The first bulk underpin reports identified 500 records where additional pension may be due under McCloud. Many of these records have been checked by the member services coaches and then by the data analysts. In addition, the coaches have provided training for member services teams on this topic. Once the checking is complete, we will be able to run the actual underpin calculation and start recalculating pensions.

### **Pensions Dashboard**

- 4.18 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.
- 4.19 The ministerial statement in June 2023 delaying the deadline connection date by one year to 31 October 2026 was ratified by amendment regulations that came into force in August 2023. However, the DWP (Department for Work and Pensions) have still to announce revised staged connection dates for each pension scheme type, the previous regulations having stated this as 30 September 2024 for all public sector schemes.
- 4.20 To connect to the Pensions Dashboard ecosystem, schemes will need to procure an Integrated Service Provider (ISP), their services include connection to the ecosystem and data analytics. We are currently awaiting on National LGPS Frameworks launching the procurement framework for the ISP. Their last communication indicated they hoped to deliver this early in the New Year and this is still currently awaited.
- 4.21 In the meantime, we continue to monitor the quality of our data using other tools such as that used for the Pensions Regulator data quality checks. When the Pensions Dashboards are live, it is a requirement that in-house Additional

Voluntary Contribution providers return their value data at the same time to the end user as the value data to the pension scheme. We plan to contact both our providers and undertake a data cleanse between the sets of data.

### Investments - Asset Allocation

- 4.22 The Fund's assets broken down by policy group at 30 September and 31 December 2023 are shown in the table below.

30 September 2023 £'000	Policy Groups	31 December 2023 £'000
5,362,801	Equities	5,547,450
2,101,409	Real Assets	2,113,337
575,406	Non-Gilt Debt	582,462
836,455	LDI (Gilts)	1,076,508
232,502	MEG (Mature Employers)	254,443
392,222	Cash	322,193
<b>9,500,795</b>	<b>Total</b>	<b>9,896,392</b>

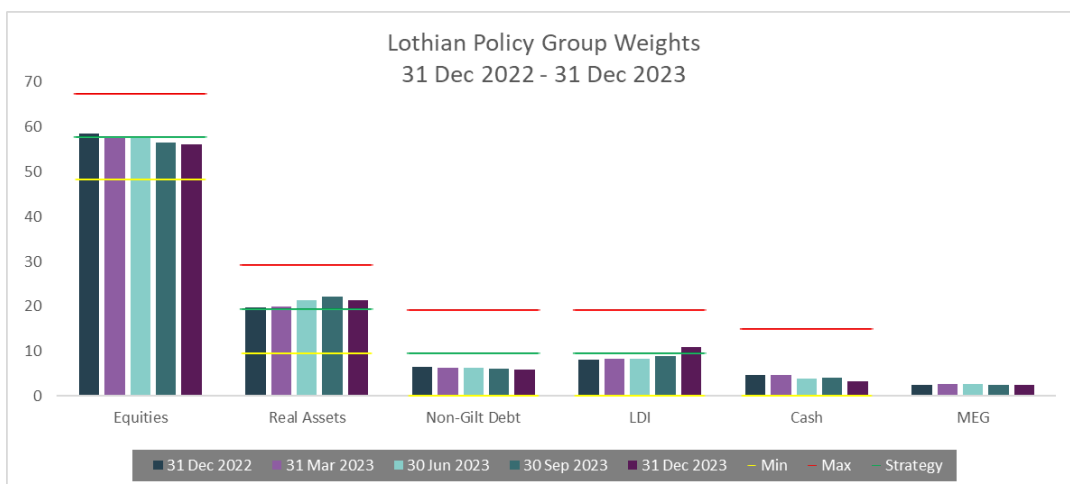
Source Northern Trust

- 4.23 The Fund's long term performance is strong compared to benchmark, demonstrated in the table below detailing the 3, 5, 10 year and since inception (Oct 93) returns against benchmark.

	3 Yrs	5 Yrs	10 Yrs	ITD
<b>Performance</b>	5.51%	6.04%	8.04%	7.91%
<b>Benchmark</b>	-1.17%	5.01%	6.86%	7.27%

- 4.24 Total Fund assets increased by c.4% over the quarter as both equity and bond prices rose. The Fund continued to reduce exposure to equities and cash to allocate c.£100m/1% of total assets to Index-Linked Gilts during the quarter. At 31 December 2023, relative to the strategic asset allocation, the fund was underweight Equities and Non-Gilt Debt, and overweight Real Assets, Gilts and Cash.
- 4.25 The green lines in the bar chart below represent the strategic allocation to 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 allocation weights to the five policy groups (and the mature employer group) over the last five quarters to end December 2023. All policy groups remain comfortably within the agreed ranges. Should policy group weights move outwith those ranges, officers are required to report this to the Pensions Committee.

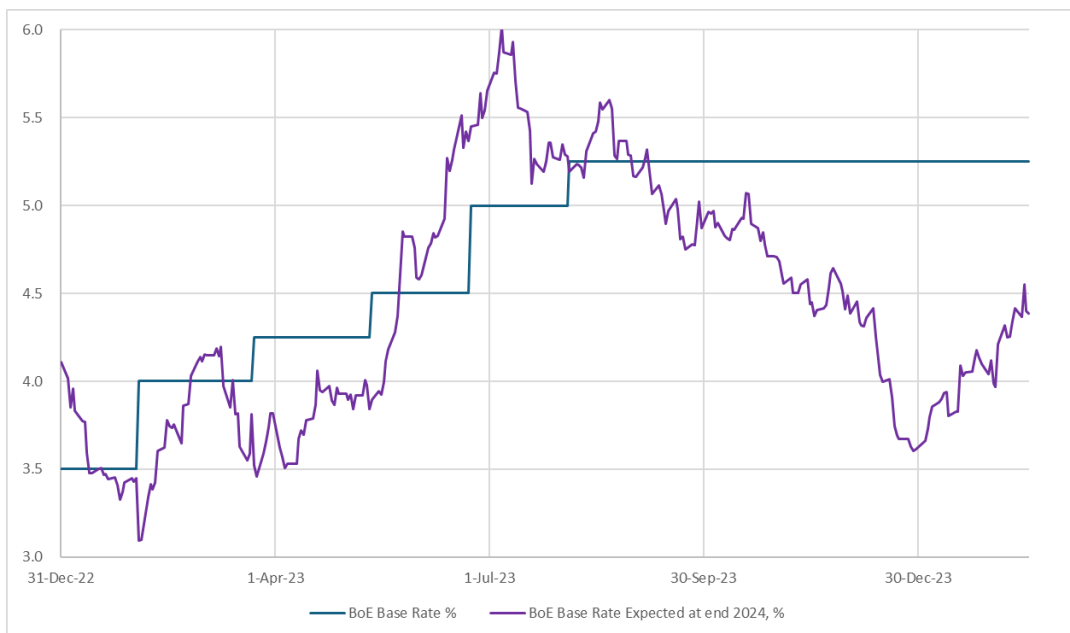




Source Northern Trust, LPF calculations

**Activity**

- 4.26 The main changes to asset allocation over the last several quarters have been increases in the weights of Index-Linked Gilts and Real Assets and the reductions in Equities and Cash.
- 4.27 After a long period of being underweight Index-Linked Gilts, prices have weakened very significantly and now offer a reasonable long term real yield, hence the increased weight. In the Real Asset policy group, the Fund has continued to 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.
- 4.28 Major central banks are now expected to cut interest rates during 2024 as inflation pressures reduce. As an example, the chart below shows the Bank of England (BoE) base rate (blue line) as well as market expectations for this rate at the end of 2024 (purple line) throughout 2023; the large fall in the latter during the last quarter of 2023 drove the increase in equity and bond prices. Any reduction in this rate is likely to be reflected in the increase in the valuation of scheme liabilities, thereby reducing the surplus, all other things being equal.



Source Bloomberg

### Investment Strategy Review

- 4.29 The investment strategy review has run in parallel with the actuarial valuation and proposals for updating the strategic asset allocation are covered at agenda item 6.6.

### Risk & Compliance - Risk Management Framework

- 4.30 The plan to improve and embed the risk management framework continues to progress with the development of the suite of LPF operational functional risk profiles. Completion of these risk profiles will help determine a controls assurance programme which will compliment other existing oversight activity. 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. Enhancements to the existing universe of compliance tests within the Investment Management System (“CRIMS”) have been introduced. A full review of the completeness and accuracy of these compliance tests is underway and will help drive improvements around operational efficiency and resiliency. More details are provided in the Risk and Compliance update to committee covered in agenda item 6.13.

### Information Governance and Supplier Management

- 4.31 With support from Legal, the Information Governance framework has been improved with the development and embedding of refreshed policies and procedures which in-line with legal and regulatory requirements and CEC’s expectations. The Risk Management Group have oversight of compliance with key

obligations such as: data breaches, subject access requests, data protection assessments, and freedom of information requests.

- 4.32 Supplier performance and third party oversight arrangements continue to be improved through changes made to the supplier management framework recommended from the internal audit review in 2023. Further work is required to review and enhance the basis of arrangements and oversight between CEC as service provider and LPF. The Risk Management Group's terms of reference now also include oversight of critical suppliers and operation of the framework. General training will be delivered to all Fund staff shortly, with dedicated training for owners of critical supplier relationships.

#### **Finance - General Ledger System**

- 4.33 As a result of a competitive tender process and an independent assurance review the Fund awarded X-Ledger a contract 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 transactions.
- 4.34 A 2-stage process for implementation was agreed, with the onboarding of LPFE/I completed in September. The Fund is targeting to onboard LPF and SHPF on to X-Ledger from 1 April 2024. Discussions are taking place with CEC to agree timing in relation to the handover and provision of information to meet this deadline.
- 4.35 Year to date financial transactions have been imported to Xledger for LPFE/I so full financial statements can be produced for the 2023/24 financial year. Staff training has been rolled up, with efficiencies and improvements being investigated for financial and budget monitoring.
- 4.36 LPF and SHPF 2023/24 financial year end reporting will be completed on Oracle before opening balances are transferred to X-Ledger.

#### **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.
- 4.38 The collaborative relationship with Falkirk remains in place, with an additional equities mandate onboarded during Q3 bringing total assets under management of LPFI to over £1.8b.

## Office Relocation

4.39 The lease for the new premises began on 8 December 2023 when the sub-division work completed, triggering the commencement of a rent-free period. A building contractor is currently undertaking the fit-out of the new office. Final costing are expected to be in line with budgeted assumptions and work is scheduled to complete by April 2024, with occupation from Spring 2024 as expected Progress is underway to secure a new tenant for the current office in Atria One. The landlord's scheduled rent review has hampered the re-let exercise but the review process is nearing completion, and this will provide clarity on the rent payable by any new tenant.

## 5. Financial impact

5.1 A projected underspend of £2,235k is expected for the year as per the projected and year-to-date financial outturn compared to the approved 2023/24 budget shown in the table below:

Category	Budget	Projected Outturn	Projected Variance	Budget to date	Actual to date	Variance to date
	£'000	£'000	£'000	£'000	£'000	£'000
Employees	8,344	8,243	(101)	6,258	5,121	(1,137)
Transport & Premises	577	577	-	433	374	(59)
Supplies & Services	2,768	2,638	(130)	2,076	2,022	(54)
Investment Managers Fees -Invoiced	3,850	2,500	(1,350)	2,888	1,600	(1,288)
Other Third-Party Payments	2,583	1,518	(1,065)	1,938	921	(1,017)
Central Support Costs	732	732	-	549	549	-
Depreciation	227	227	-	170	138	(32)
<b>Gross Expenditure</b>	<b>19,081</b>	<b>16,646</b>	<b>(2,646)</b>	<b>9,541</b>	<b>7,394</b>	<b>(3,587)</b>
Income	(2,621)	(2,210)	411	(1,966)	(1,171)	795
<b>Total Cost to the Funds</b>	<b>16,460</b>	<b>14,225</b>	<b>(2,235)</b>	<b>12,346</b>	<b>9,554</b>	<b>(2,792)</b>

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

- 5.3 The key variances against budget remain unchanged from previous quarter, and are:
- 5.3.1 Investment Managers Fees - Invoiced - £1,350k underspend. In July the Fund terminated the externally managed mandate of Harris bringing the resulting funds into inhouse management. It is important to highlight that this was an investment led rather than cost led decision. The CIO will review the impact of this on internal resources/staffing headcount which will be quantified in forecasting for 2024/25. As the investment strategy paper sets out the mix of internal and external fund management is kept under constant review with a clear framework to guide decisions on the mix.
  - 5.3.2 Other Third-Party Payments - £1,065k 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 £2,792k. 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 £1,137k, a majority of which is a timing difference relating to variable pay arrangements. 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 will introduce a phased approach to budgeting in the new financial year where budget will be allocated to periods expenses due.

#### **Membership and Cashflow monitoring**

- 5.5 A high-level summary of the cashflows from dealing with members as at the end of December 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	205,153	290,000
(282,713)	Benefits Paid	(235,152)	(308,000)
<b>(17,591)</b>	<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(29,999)</b>	<b>(18,000)</b>

- 5.6 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.
- 5.7 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.
- 5.8 The expectation is the contributions for 2024-2027 will be lower than current levels, an initial estimate is that deductions from dealing with members will be c£70m in 2024/25 We are looking to review and improve cashflow monitoring and liquidity management. This becomes more important as the gap between contributions and benefits grows.

## 6. Stakeholder/Regulatory Impact

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

## 7. Background reading/external references

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

## 8. Appendices

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None.