



## Pensions Committee

2.00pm, Wednesday, 20 March 2024

### 2024-5 Strategy & Business Plan Inc. Functional Plan and Budget

#### Item number 6.8

#### 1. Recommendations

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The Pensions Committee (Committee) is requested to:

- 1.1 approve the Strategy and Business Plan for 2024-25;
- 1.2 approve the respective budgets, as detailed in the Financial Projections section of appendix 1, for:
  - 1.2.1 LPF Group business as usual 2024-25; net expenditure of £15,790k (2023/4: £15,267k).
  - 1.2.2 Strategic project costs relating to the office relocation of £125k (2023/4: £1,193k relating to office relocation and Project Forth).
- 1.3 note the indicative budget for 2025-26; net expenditure of £16,711k.

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# Strategy and Business Plan for 2024 – 25

## 2. Executive Summary

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- 2.1 The Strategy and Business Plan sets out the proposed medium-term strategy for LPF and the business priorities for calendar years 2024-25. It also sets the budget and performance targets for the financial year 2024-25.
- 2.2 The indicative budget for 2025/26 shows the anticipated full year costs of changes proposed in 2024/25 primarily recruitment, pay reviews and office costs.
- 2.3 The overall strategy remains the same and articulated in four strategic goals:
- 2.3.1 Develop and deliver a member and employer proposition for service excellence
  - 2.3.2 Earn an appropriate risk adjusted investment return as responsible investors
  - 2.3.3 Extend collaboration and services to existing partners and deepen where possible
- 2.4 Foster great teams and a great work environment. Section 4.7 collates the key priorities under these strategic goals, the key themes of the priorities are:
- 2.4.1 Reviewing the team structures and resourcing needs, and recruit and retain well trained staff to meet evolving needs and build in additional resilience across the teams.
  - 2.4.2 Continuing to focus on service and investment excellence.
  - 2.4.3 Furthering investment alignment with Fife and Falkirk pension funds to simplify operations and gain further efficiencies to the benefit of all 3 funds.
  - 2.4.4 Continuing to evolve and improve governance standards and our approach to risk management.
- 2.5 The Key Performance metrics in appendix 1 and the Service Performance Indicators set out in appendix 2 of the 2024 – 2025 Strategy and Business plan are consistent with the 2021-23 plan. Some of these targets are being reviewed and although no major changes are expected any revisions will be tabled at the Pension Committee in June for approval.

### 3. Main Report

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#### Strategy

- 3.1 The proposed Strategy and Business Plan for 2024-25 is provided as Appendix 1.
- 3.2 The Boards of LPFE and LPFI have been consulted during the development of this plan and are supportive of it. If approved by the Committee, then the relevant aspects will be considered formally by the Boards of LPFE and LPFI with the expectation that they will be approved. This includes the update of the regulatory business plan of LPFI.
- 3.3 The Plan opens with an articulation of the Purpose, Vision and Values (“PVV”) of LPF. We regard these as being enduring and there is no change being made. The aim is that all colleagues can articulate the PVV and understand the role they play in delivering them for the benefit of our members and employers. We recognise further work is required to achieve this.
- 3.4 The Strategic section articulates the strategic goals, and within these strategic priorities for LPF. Again, these remain substantially the same:
- 3.4.1 Develop and deliver a member and employer proposition for service excellence
  - 3.4.2 Earn an appropriate risk adjusted investment return as responsible investors
  - 3.4.3 Extend collaboration and services to existing partners and deepen where possible
  - 3.4.4 Foster great teams and a great work environment.
- 3.5 The last goal has been re-articulated from “Achieve greatness in our people, teams and culture”.
- 3.6 Attention is drawn to the maintaining the goal of collaboration. It is worth highlighting that this is where collaboration benefits LPF in the pursuit of its purpose. Collaboration is not a goal in itself.
- 3.7 The Business Plan document provides an overview of the planning process followed and includes a recap of 2023 to provide context.

#### Business Plan

- 3.8 Whereas the strategy, purpose, vision and values are expected to remain constant, the Business Plan is intended to capture specific projects and initiatives designed to deliver the strategy and set out the operating parameters.

3.9 The business plan document sets out what are described as functional plans. These describe the key priorities and initiatives of each function and department and summarise more comprehensive functional plans that have been created for use within the teams. Collectively these ensure there is clarity of the priorities of each team and alignment both up and down and across the business. These have then been grouped under the strategic priorities noted above.

### 3.10 Strategic Priorities

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

- Project delivery: complete McCloud and be ready for the launch of the Pensions Dashboard
- Recruit experienced administrators, improve capability and upskill teams
- Work with employers to improve performance and collaboration
- Continue service improvements: eliminating complexity and unnecessary friction in internal processes, explore automation, and operate with clear information accessible across multiple channels.
- Maintaining PASA and CSE accreditation; utilise insights from CEM benchmarking

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

- Implementation revised strategic asset allocation and complete review and any rebalancing within policy groups
- Team structure and resourcing
- Continue and enhance our approach to Responsible Investment
- Continue to support partner funds via LPFI and further alignment of portfolios
- Maintain FRC Stewardship Accreditation
- **Foster great teams and a great work environment** Re-locate to our new office; better suited to the needs of our colleagues
- Recruitment and retention; training and development; talent management and succession planning
- Supporting organisational design to support evolving needs
- Continuing to support a fully inclusive culture and providing our colleagues with the tools, education and capacity to do so

- Supporting our communities, making sure each of our colleagues have two days annually to spend giving back to their communities in the manner they chose.

### 3.10.3 Governance, Legal, Risk and Compliance

- Review and operate to the requirements of the new tPR General Code of Practice (and other governance reforms)
- Continue the development and improvement to governance operating model, frameworks and practices
- Complete risk management framework uplift
- Undertake a comprehensive governance review
- Maintain Cyber Essentials Plus accreditation

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

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

- 3.12 The Plan includes as appendix 1 the 'Key Performance Metrics'. These were previously labelled the operational goals and measures. These form a focused 'balanced scorecard' covering all aspects of LPFs performance. They also form the basis for the variable pay component for colleagues.
- 3.13 Appendix 2 lists the 'Service Performance Indicators'. These remain unchanged from 2023/24. It is recognised that delivery against these can be impacted by the performance of employers, for example late delivery of notification of leavers and joiners, as well as by our performance.

## 4. Financial impact

- 4.1 The respective budgets for LPF Group are detailed in the Financial Projections section of appendix 1.
- 4.2 The proposed total business as usual budget represents a £523k increase to the comparable 2023/24 budget, however with the inclusion of strategic project costs, then the total budget represents a £545k reduction on last year. This is broken down in the below table -

	Budget 2023/24 £000	Movement £000	Budget 2024/25 £000	Indicative 2025/26 £000	Indicative 2026/27 £000
Employees	7,997	1,589	9,586	10,275	10,789
Plant and transport	306	475	781	820	861
Supplies and services	2,742	158	2,900	3,045	3,197
Third party payments	1,519	100	1,619	1,700	1,785
Investment managers fees – invoiced	3,850	(1,150)	2,700	2,835	2,977
Support costs	732	36	768	806	847
Capital funding	197	51	248	248	260
<b>Gross expenditure</b>	<b>17,343</b>	<b>1,259</b>	<b>18,602</b>	<b>19,730</b>	<b>20,716</b>
Income – collaboration	(1,966)	(736)	(2,702)	(2,909)	(3,054)
Income – other	(110)	-	(110)	(110)	(110)
<b>Total income</b>	<b>(2,076)</b>	<b>(736)</b>	<b>(2,812)</b>	<b>(3,019)</b>	<b>(3,164)</b>
<b>Net expenditure</b>	<b>15,267</b>	<b>523</b>	<b>15,790</b>	<b>16,711</b>	<b>17,552</b>
<b>Percentage movement</b>			<b>3.43%</b>	<b>5.83%</b>	<b>5.03%</b>
Strategic project costs	1,193	(1,068)	125	-	-
<b>Total net planned expenditure</b>	<b>16,460</b>	<b>(545)</b>	<b>15,915</b>	<b>16,711</b>	<b>17,552</b>

- 4.3 Key changes from previous year's budget comprise the following:

### Employees

- 4.3.1 £1,589k increase on last year's budget. Changes of note being –

4.3.1.1 Inclusion of 9 vacancies including Investment and Research Analysts, additional resource in the Employer Services Team, Project resource for Data/Cyber and Business Continuity and Supplier Management. These roles are a response to the increasing requirements within the business. Any new role requires completion of a business case prior to the commencement of recruitment.

4.3.1.2 Full year provision for roles recruited in 2023/24 to improve the resilience of the fund and pay reviews. These are in line with the recommendations and approvals made by the LPFE Board.

4.3.1.3 The indicative budget for 2025/26 shows an increase of £689k. This provides for a full year salary for new roles anticipated in 2024/25 and a full year of salary uplifts assumed to be around 5%.

## Investment Management

4.3.2 £1,150k decrease in relation to invoiced fees as a result of in-housing the Harris equity mandate. Externally managed mandate fees are based on market value. Changes in mandate and internal / external mix are driven by investment strategy and objectives, and consider expected investment return after fees. They are not made on narrow cost grounds.

4.3.3 The Fund continues to benefit from the cost savings associated with the majority of assets being managed inhouse. We continue to estimate these savings as being in excess of £25m per annum. This amount is annotated within the plan as being contingency costs if the internal model was to cease.

## Transport and Premises

4.3.4 A majority of the £475k increase reflects the move to the new office. The annual costs are in line with the costs previously highlighted to committee.

## Strategic Project Costs

4.3.5 £1,068k decrease in overall budget, due to –

4.3.5.1 Project Forth costs being removed from the budget following the cessation of the project.

4.3.5.2 Office relocation – due to the timing of the office move some project costs have been carried forward into the new financial year. Removal, dilapidation and Atria overlap costs are expected in Q1 2024/25.

4.4 Increases in supplies and services, third party payments and support costs can mostly be explained by increased headcount which has a knock-on effect on training, system license etc. This coupled with CPI uplifts on existing contracts has caused slight increases in these budgets.

## Membership and Cashflow monitoring

4.5 High-level projections of cashflows from dealing with members for 2023/24 to 2026/27 are shown below –

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Contributions Received	290,000	252,000	264,600	277,830
Benefits Paid	(308,000)	(329,000)	(352,030)	(376,672)
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(18,000)</b>	<b>(77,000)</b>	<b>(87,430)</b>	<b>(98,842)</b>

- 4.6 As a result of the improvement in funding level in the most recent triennial valuation a decrease in employers' contributions has been forecast. The proposed contributions are subject to Pension Committee approval on 20<sup>th</sup> March. This coupled with the annual pensions increase exercise and the aging profile of the pension fund (increasing number of pensioners) the net deductions from dealing with members is expected to increase to around £77m in 2024/25.
- 4.7 The investment income anticipated from assets will cover this shortfall with ease.

## **5. Stakeholder/Regulatory Impact**

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- 5.1 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.
- 5.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

## **6. Background reading/external references**

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- 6.1 None.

## **7. Appendices**

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Appendix 1 – Key changes to the Business Plan document from prior year

Appendix 2 – Draft Lothian Pension Fund Strategy and Business Plan 2024-2025



## **Appendix 1 - Key changes to the Business Plan document from prior year**

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To aid review and approval of the document a list of key changes from prior year has been provided. This is not an exhaustive list of amendments but should focus the reader on the key parts of the document.

- Pages 5 & 6 - David has fully updated the review of the year to reflect the key achievements in 2023.
- Page 7 - There have been minor amendments to the planning process to reflect the updated status of Project Forth
- Pages 8-11 - The strategic goals have been updated to reflect the key priorities for the year under each of the strategic goals and the title of the 4th strategic goal has been re-worded to “Foster great team and a great work environment” (from “Achieve greatness in people, teams, and culture”).
- Pages 12 & 13 - The strategic priorities have been updated to remove references to Project Forth and to reflect the current status of office move, McCloud and pension dashboard developments. Good governance and embedding best practise have been added as a strategic priority, this was discussed at the training on 7th March.
- Pages 14 & 15 - Minor amendments have been made to the narrative relating to LPFI and LPFE. LPFI narrative has been updated to reflect the change in FCA classification as well as the intentions for 2024/25.
- Pages 16 & 17 - operating budget and cash flow forecasts have been updated to reflect current positions.
- Pages 18–22 – functional plans updated to reflect priorities for the year.
- Page 23 – Projects & Change – updated to reflect current status of projects.
- Page 24 – Organisational Design – breakdown of functions amended to reflect reporting to LPFE board and narrative. The updated figures were discussed at the sessions in February and March.
- Pages 25 & 26 – substantially changed with narrative which reflects risks to current plan and external factors/developments.