City of Edinburgh Council

10:00am, Thursday 15 October 2020

Lothian Pension Fund Audited Annual Report (and Financial Statements) 2020 – referral from the Pensions Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

The Council is asked to note the audited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund.

Laurence Rockey

Head of Strategy and Communications

Contact: Lesley Birrell, Committee Services

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Referral Report

Lothian Pension Fund Audited Annual Report (and Financial Statements) 2020

1. Terms of Referral

2.1 On 29 September 2020, the Pensions Committee considered a report setting out the Audited Annual Report and Financial Statements for 2020 for the Lothian Pension Fund (LPF) and Scottish Homes Pension Fund.

2.2 Azets Audit Services (formerly Scott Moncrieff) intended to provide an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund and intended also to confirm that there were no matters on which it was required to report by exception.

2.3 The Pensions Committee agreed:

2.3.1 To note the report by Azets Audit Services "Lothian Pension Funds 2019/20 Annual Audit Report to Members and the Controller of Audit" set out at Appendix 1 of the report by the Chief Finance Officer, LPF.

2.3.2 To approve the audited Annual Report for the year ended 31 March 2020 for the Lothian Pension Fund and the Scottish Homes Pension Fund set out at Appendix 2 of the report by the Chief Finance Officer, LPF.

2.3.3 To note that the audited financial statements, for the year ended 31 March 2020, of both the wholly-owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in July 2020. These statements are shown in full at Appendices 3 and 4 of the report by the Chief Finance Officer, LPF.

2.3.4 To refer the audited Annual Report and Financial Statements to the Council for noting.

2. Background Reading/ External References

Minute of the Pensions Committee of 29 September 2020.

3. Appendices

Appendix – report by the Chief Finance Officer, Lothian Pension Fund

Pensions Committee

2.00pm, Tuesday, 29 September 2020

LPF Audited Annual Report (and Financial Statements) 2020

Item number 6.3

1. Recommendations

The Pensions 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 (formerly Scott-Moncrieff) 'Lothian Pension Funds 2019/20 Annual Audit Report to Members and the Controller of Audit' (at Appendix 1);

1.3 approve the audited Annual Report for the year ended 31 March 2020 for the Lothian Pension Fund and the Scottish Homes Pension Fund (at Appendix 2); and

1.4 note that the audited financial statements, for the year ended 31 March 2020, of both the wholly-owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in July 2020. These statements are shown in full at Appendices 3 and 4.

John Burns
Chief Finance Officer, Lothian Pension Fund

Contact: Jason Koumides, Senior Finance Officer, Lothian Pension Fund

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LPF Audited Annual Report (and Financial Statements) 2020

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 2020 for Lothian Pension Fund and Scottish Homes Pension Fund.

2.2 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 (formerly Scott Moncrieff) 'Lothian Pension Funds 2019/20 Annual Audit report to Members and the Controller of Audit' is included at Appendix 1.

2.3 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.

3.4 Following consideration by Pensions Committee on 24 June 2020, City of Edinburgh Council noted the Unaudited Annual Report 2020 for the Lothian Pension Fund and Scottish Homes Pension Fund at its meeting on 30 June 2020.

4. Main Report

Scott-Moncrieff - Lothian Pension Fund and Scottish Homes Pension Fund

2019/20 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 (formerly Scott-Moncrieff) - Lothian Pension Fund and Scottish Homes Pension Fund 2019/20 Annual Audit Report to Members 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.

Annual accounts audit

4.2.2 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.

4.2.3 The report includes an assumption about the future and other major sources of estimation uncertainty' in the financial statements, which describes the effects of material uncertainty, caused by COVID-19, on the investment property valuations. The auditor's opinion is therefore not modified in respect of this matter.

Wider scope audit

4.2.4 The Funds have effective arrangements in place to ensure the ongoing sustainability of the pension funds.

4.2.5 The Funds have effective arrangements in place for financial management and the use of resources.

4.2.6 Governance arrangements at the Funds are deemed to be appropriate.

4.2.7 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.

4.3 The management action plan details the control weaknesses and opportunities for improvement that the auditor has identified, and the actions taken, or to be taken, by LPF staff in relation to the relevant points. These points all relate to requisite follow-up of previous findings, with no new identifications during this year's audit. Of these six findings, five now have been deemed "complete" by the auditor. Closure of the remaining ongoing finding in respect of the separation of bank accounts is dependent upon a response from the Scottish Public Pensions Agency to the Fund's request to transfer payment responsibility for unfunded pensions.

4.4 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 2012 for Lothian Pension Fund and Scottish Homes Pension Fund

4.5 With the completion of the work by Azets Audit Services, the Audited Annual Report 2020 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 Chief Finance Officer, Lothian Pension Fund, 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 2020; LPFE Limited and LPFI Limited

4.7 The consolidated financial statements (within the Annual Report 2020) 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 Scott-Moncrieff and were approved by the respective Boards of Directors in June 2020. 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 2020, the underlying trading profit of the company was £131,583 (2019: £88,926). Turnover was £4,914,525 (2019: £3,915,842).

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 2020, the underlying trading profit of the company was £11,860 (2019: £59,396). Turnover was £915,296 (2019: £256,939).

4.10 The separate report on this agenda, entitled Annual LPF Group Governance Update, provides 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 and Scottish Homes Pension Fund 2019/20 Annual Audit Report to Members and the Controller of Audit, in accordance with International Standard on Auditing (UK and Ireland) 260 (ISA 260);

Appendix 2 - Audited Annual Report 2020 for the Lothian Pension Fund and Scottish Homes Pension Fund;

Appendix 3 - LPFE Limited – Financial Statements (Audited) for the year ended 31 March 2020;

Appendix 4 – LPFI Limited – Financial Statements (Audited) for the year ended 31 March 2020;

Appendix 5 – Letter of Representation (ISA 580) by Chief Finance Officer, Lothian Pension Fund

Scott-Moncrieff
business advisers and accountants

Lothian Pension Fund and Scottish Homes Pension Fund

DRAFT 2019/20 Annual Audit Report to Members and the Controller of Audit

September 2020

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1. Key messages

Annual accounts audit

Lothian Pension Funds will approve the annual report and financial statements for 2019/20 on 29 September 2020. We intend to report unqualified opinions on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund (collectively referred to as the “Funds”) within our independent auditor’s report. We also intend to report that there were no matters which we were required to report by exception.

We have drawn attention in our independent auditor’s report to the Accounting policies and general notes, note 5. ‘Assumptions made about the future and other major sources of estimation uncertainty’ in the financial statements, which describes the effects of a material uncertainty, caused by COVID-19, on the investment property valuations. Our opinion is not modified in respect of this matter.

The annual report and financial statements and supporting schedules were of a high standard. Our thanks go to staff for their assistance with our work.

Wider scope audit

Financial sustainability

The Funds have effective arrangements in place to ensure the ongoing sustainability of the pension funds.

The focus of their investment strategy is to ensure a sufficient return over the long term to meet the funding objectives outlined by the Funding Strategy Statement. Performance over 5 years shows they are managing investment at the benchmark.

There is an ongoing risk that the pension scheme is not affordable for admitted bodies and Lothian Pension Fund has reported an increase in the number of bodies leaving the Fund and an increase in the cessation liability following the 2017 triennial valuation.

Financial management

The Funds have effective arrangements in place for financial management and the use of resources

Lothian Pension Fund’s value of investments decreased in 2019/20 due to the impact of the global outbreak of COVID-19 on market prices.

The net assets of Lothian Pension fund have decreased in 2019/20 and Scottish Homes Pension Fund assets have not moved. The funding level has decreased across both funds.

Governance and transparency

Governance arrangements at the Funds are deemed to be appropriate.

Our assessment has been informed by a review of the corporate governance arrangements in place, the information provided to the Board and Committees as well as the risk management arrangements in place.

The COVID-19 outbreak resulted in the Pensions Committee and Pensions Audit Sub-Committee only meeting three times during 2019/20. However, we are satisfied that all relevant reports were reviewed by the committees as required.

Value for money

The Funds’ investment performance is subject to regular review by the Pension 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.

Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
September 2020

2. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the Lothian Pension Funds for 2019/20.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

We have designated the Pensions Committee as "those charged with governance" for the purposes of audit communication.

Introduction

1. This report summarises the findings from our 2019/20 audit of Lothian Pension Funds (the Funds).

2. 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. The core elements of our work include:

- an audit of the 2019/20 annual report and accounts and related matters;
- a review of the Funds' arrangements for governance and transparency, financial management, financial sustainability and value for money; and
- any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice

3. The Funds are responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified 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 of the annual report and accounts 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.

4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding on appropriate actions. We give each recommendation a grading to help the Funds assess their significance and prioritise the actions required.

5. We discussed and agreed the content of this report with the Chief Finance Officer. We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

6. 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.

7. We confirm that we have complied with the Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way.

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

Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Funds through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Funds promote improved standard of governance, better management and decision making and more effective use of resources.

Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX

11. While this report is addressed to the Funds and the Controller of Audit, it will be published on Audit Scotland's website www.audit-scotland.gov.uk

3. Annual report and accounts

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

In this section we summarise the findings from our audit of the 2019/20 annual report and accounts.

Annual report and accounts

An unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2020 are due to be approved by the Pensions Committee on 29 September 2020. We intend to report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

The Funds' had good administrative processes in place to prepare the annual report and financial statements and the required supporting working papers.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

12. The annual report and accounts for the year ended 31 March 2020 are due to be considered by the Pensions Committee on 29 September 2020. We intend to report within our independent auditor's report:

    - an unqualified opinion on the financial statements; and
    - an unqualified opinion on other prescribed matters.

13. We are also satisfied that there are no matters which we are required to report by exception.

14. We have drawn attention via an Emphasis of Matter in our independent auditor's report to Accounting policies, 'Assumptions made about the future and other major sources of estimation uncertainty' of the financial statements. This describes the effects of a material uncertainty, caused by COVID-19, on the investment property valuation report. Our opinion is not modified in respect of this matter.

Good administrative processes were in place

15. We received unaudited annual report and accounts and supporting papers of a good standard, in line with our audit timetable. Our thanks go to staff at the Funds for their assistance with our work.

Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.

Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements.*

Excerpt from the 2019/20 External Audit Plan

17. We have not identified any indication of management override in the year. We have reviewed the Funds' accounting records and obtained evidence to ensure that transactions outside normal processes were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

18. While we have not identified any instances of management override from our testing, we noted in 2017/18 that City of Edinburgh Council staff, with access to Oracle, have the ability to post journals to the Funds' financial ledger. This is an ongoing issue in 2019/20, however, we did not identify any instances where journals were posted by inappropriate users.

2. Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Funds' could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2019/20 External Audit Plan

19. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient.

20. We have evaluated key revenue transactions and streams to gain assurance over the completeness and occurrence of income. We are satisfied income in fairly stated in the financial statements. We also carried out testing to confirm that the Funds' revenue recognition policies are appropriate and have been applied consistently throughout the year.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2019/20 External Audit Plan

21. At the planning stage of our audit cycle, we reported that we did not believe the risk of fraud in expenditure recognition was material to the financial statements and we therefore rebutted this risk. This position has been reviewed throughout this audit and this conclusion has remained appropriate.

22. We conducted our testing based on our approach to low inherent risk areas and we evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the Funds' policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Valuation of investments

The Funds held investments of £7.789 billion as at 31 March 2019, of which 34% (£2.639 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.

Excerpt from the 2019/20 External Audit Plan

23. In 2019/20, the value of level 2 and 3 investments fell by 7% to £2.456 billion (2018/19: £2.639 billion) increasing as a proportion of overall investments to 37% (36% in 2018/19). Fair values of investments of this nature are provided by fund managers and custodian using various bases selected by the investment manager or custodian. The base of investment values can include reference to similar companies or bid prices.

24. We have considered the valuation basis for a sample of investments and concluded that an appropriate base has been applied in each case. The custodian and investment managers are deemed to be management experts. In line with ISA (UK) 500 we have considered the competence, capability and objectivity of the experts used to inform the valuation. In addition, we have reviewed auditor reports on the internal controls at the custodian and at each key investment manager. Our testing did not raise any issues regarding the qualifications of or work provided by the management experts employed by the Funds.

25. For a sample of hard to value investments we reviewed the assumptions and bases of the fair value. We challenged the Funds on the rationale for selecting the bases and assumptions and ensured we were satisfied they were appropriate.

26. The disclosures within the annual report and financial statements are consistent with the information provided by the custodian.

5. Accounting for investment properties

LPF hold a portfolio of investment properties which as at the 31 March 2019 was valued at £475.4 million. During 2018/19, this portfolio was managed by Standard Life. In 2019/20, the management of this investment has been moved in-house. The management of the properties will be undertaken by JLL, along with the fund accounting for the portfolio. Fund accounting for a portfolio the size of LPF's has not been undertaken by JLL before now. The material nature of this portfolio means that an error in accounting treatment could result in a material error.

Excerpt from the 2019/20 External Audit Plan

27. We have reviewed the transfer process undertaken by Lothian Pension Fund for the management of the investment property portfolio from Standard Life to JLL. This is deemed to have been subject to sufficient checks and confirmations to ensure a complete and accurate transfer of information.

28. Additionally, we have reviewed the year end working papers produced by Lothian Pension Fund and JLL to account for the investment property portfolio. We have assessed the methodology used in these working papers to be in line with the relevant accounting standards and based on appropriate and accurate information.

Update to our initial risk assessment

29. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk[1].

COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/ or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by the Board, the public sector and the Scottish Government. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

30. In response to this risk we identified a number of potential areas where there was the risk of material misstatement to the financial statements and/or our audit opinion. These areas included:

- Property valuations
- Group considerations (paragraph 50 – 52)
- Access to audit evidence
- Timescales/administrative processes

Property Valuations

31. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges with regard to the valuation of assets during this period, including the potential for valuations to be "qualified" with a "material valuation uncertainty".

32. In line with their accounting policies, Lothian Pension Fund obtained an external valuation of their investment property portfolio as at 31 March 2020.

[1] A key audit risk is one which may result in a material misstatement to the financial statements or significantly impact on our audit judgements and conclusions on the four wider scope dimensions; financial sustainability, financial management, governance and transparency and value for money.

The value of the portfolio reported by the valuer is £370.55 million. The valuations are carried out in accordance with the RICS Valuation Global Standards and the UK National Supplement insofar as these terms are consistent with the agreed requirements of the Scottish Government.

33. In the current year, the valuation report received from the external valuers (CRBE) stated the following:

Material Valuation Uncertainty

> The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.
>
> Our valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review.
>
> For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is a disclosure, not a disclaimer.'
>
> **CRBE Valuation of Investment Property Portfolio as at 31 March 2020, Prepared for Lothian Pension Fund**

34. A material uncertainty in a valuer's report does not mean that the valuation cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the valuation than would otherwise be the case.

35. Lothian Pension Fund has disclosed the uncertainty and the impact on the amounts recognised in the financial statements within both the management commentary and within the "Assumptions made about the future and other major sources of uncertainty" section of the accounting policies.

36. We considered whether the material uncertainty over the property valuations is of such importance that it is fundamental to users' understanding of the financial statements. Based on our considerations we have concluded that an emphasis of matter paragraph is required in our independent auditor's report, which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter.

Access to audit evidence

37. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherently challenging nature of carrying out our audit remotely.

38. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

39. For all aspects of our audit we have been provided with sufficient evidence to complete the audit in line with our responsibilities. There were no issues noted with the reliability or appropriateness of evidence provided.

Timescales/Administrative processes

40. In Scotland, the administrative deadline for the submission of audited accounts of local government bodies has been extended by three months to 30 December 2020. However, Lothian Pension Fund have decided to continue with the original timescales for the annual accounts and are due to approve the accounts on 28 September 2020.

41. We have been working closely with management throughout the audit to put us in the best position to ensure this timetable is adhered to. From an audit perspective we highlight that, at this time, our audit is not fully completed, and the following work is ongoing:

- Completion of manager and partner review of the audit work performed;

- 2nd partner review and Audit Scotland consideration of our draft independent auditor's report;
- Final review of the draft annual report and accounts presented to the Pensions Audit Sub-Committee; and
- Consideration of subsequent events up to the date of approval of the annual report and accounts.

Our application of materiality

42. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.

43. Our initial assessment of materiality for the financial statements is set out in our annual audit plan. On receipt of the 2019/20 draft financial statements, we reassessed materiality as outlined in the table below. We consider that our updated assessment has remained appropriate throughout our audit.

	Materiality (£million)		
	Lothian Pension Fund Group[2]	Lothian Pension Fund Parent	Scottish Homes materiality
Overall	112	112	2.5
Dealings with members	14	14	0.36

44. Our assessment of materiality is set with reference to the Funds' net investment assets. We consider this to be one of the principal considerations for the users of the financial statements when assessing the financial performance.

45. As outlined in our External Audit Plan we considered transactions when dealing with members (i.e. contributions and expenditure incurred providing payments to pensioners) to also be of key interest to the users. This is reported in the first section of the Fund Account and contains information about the day to day operation of the Funds.

46. ISA 320 states that in certain circumstances it is appropriate to set a materiality amount for particular classes of transactions for which lesser amounts than the overall materiality could influence the decision of the users of the accounts.

We have therefore set a separate materiality for transactions relating to dealings with members, based on the expenditure incurred for providing payments to pensioners.

Performance materiality

47. 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.

48. 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.

49. Our final assessment of performance materiality for the accounts have been set out below.

	Performance materiality (£million)		
	Lothian Pension Fund Group[1]	Lothian Pension Fund Parent	Scottish Homes
Overall	73	73	1.6
Dealings with members	9	9	0.24

50. We agreed with the Pensions Committee that we would report on all material corrected misstatements, and uncorrected misstatements with a value in excess of £250,000 for Lothian Pension Fund and £125,000 for Scottish Homes Pension Fund, as well as other misstatements below

[2] Lothian Pension Fund group comprises Lothian Pension Fund (incorporating Lothian Buses Pension Fund transactions and balances), LPFE Ltd and LPFI Ltd

that threshold which, in our view, warranted reporting on qualitative grounds.

Group accounts

51. The Funds' annual report includes accounts for Lothian Pension Fund and Scottish Homes Pension Fund.

52. Lothian Pension Fund accounts are prepared on a group basis following the creation of two special purpose vehicles, LPFE Ltd and LPFI Ltd in October 2014. The companies are wholly owned and controlled by the City of Edinburgh Council.

53. We reviewed the consolidation process in 2019/20 and concluded the subsidiary companies had been correctly included in the group accounts of Lothian Pension Fund.

Audit differences

54. We are pleased to report that our audit identified no material adjustments. In addition, we can confirm there were no unadjusted errors relating to the 2019/20 financial statements.

55. Guidance issued by the Scottish Government (Local Government Finance Circular 5/2015 also provides a guide as to the minimum required disclosures in the management commentary including:

- The context of the annual report and financial statements;
- Insight into the priorities of the Funds' and strategies adopted to achieve these priorities and objectives;
- Information on future plans;
- KPIs which measure the investment performance of the Funds'; and
- Information on the principal risks and uncertainties facing the authority.

56. We have concluded that the management commentary has been prepared in line with the regulations and Scottish Government guidance and is consistent with the financial statements.

Annual governance statement

57. We have reviewed the Funds' annual governance statement against the relevant guidance: Delivering Good Governance in Local Government.

58. We consider the coverage of the annual governance statement to be broadly in line with expectations.

59. We highlighted a minor disclosure issue within the governance statement at paragraph 34 in relation to the internal audit opinion. This will be updated in the revised accounts.

60. Subject to this adjustment we have concluded that the annual governance statement is in line with the required guidance and is consistent with the accounts and assurances provided in year.

Governance compliance statement

61. The Local Government Pension Scheme (Scotland) Regulations 2014 require all pension funds to prepare a Governance Compliance Statement. The purpose of this statement is to compare the Funds' governance arrangements with those standards set out in guidance from the Scottish Ministers.

62. We have reviewed the Governance Compliance Statement and we are satisfied the disclosures comply with guidance issued by Scottish Ministers and are not inconsistent with our knowledge of the arrangements in place at the Funds.

Remuneration and staff report

63. In February 2018 staff previously employed by the City of Edinburgh Council with responsibility for the Funds' were transferred to LPFE Ltd. From this point all new staff employed for roles with the Funds were employed by LPFE Ltd.

64. The Local Authority Accounts (Scotland) Regulations 2014 (the 2014 Regulations) require that where a local government body has a subsidiary the details of the Chief Executive's salary and any employee with remuneration over £0.150 million is included in a remuneration report.

65. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

Legality

66. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.

The Local Authority Accounts (Scotland) Regulations

67. As part of our audit we reviewed the Funds' compliance with the 2014 Regulations, in particular

with respect to regulations 8 to 10[3] as they relate to the annual report and financial statements.

68. We have concluded that appropriate arrangements are in place to comply with these Regulations.

Banking arrangements

69. It was highlighted during the course of our audit that the Pension Fund had not been operating its bank account in line with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. There is a requirement for administering authorities to hold a separate bank account for funds and this should be used to hold pension fund money.

70. The Funds use the Council bank account to ensure that no unfunded payments are taken from a pension fund bank account.

71. In 2018/19 the Funds have requested that "unfunded discretionary payments" be transferred to the Scottish Public Pensions Agency which would mitigate the requirement for the Funds' to use the Council's bank account. However, this has still not been agreed to in 2019/20.

Qualitative aspects of accounting practices and financial reporting

72. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

[3] Regulations 8 to 10 relates to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies which are disclosed in the annual report and financial statements of the Funds. We consider the policies to be appropriate to the Funds, however, we have noted that the Funds have departed from CIPFA Guidance in relation to investment management expenses. During 2015/16 CIPFA issued guidance stating that pension funds should only report the direct costs of using investment managers. The impact of this is that investment management costs associated with fund of funds transactions would not be reported. The Funds feel this would detract from the transparency of the accounts and have reported indirect costs of £0.955 million for Lothian Pension Fund (2018/19: £5.062 million). This reduction is due to the Fund selling the private equity and infrastructure investments to fund the private debt investments. There were no indirect costs for Scottish Homes in either 2018/19 or 2019/20. The impact of this accounting treatment is to increase the investment management expense which is offset by an increase in the change in market value of investments. The net impact on the fund account is therefore zero.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The Funds have significant levels of accounting estimates and judgements used by management in preparing the financial statements. The principal areas of estimation concern the valuation of unquoted private equity and infrastructure investments and the actuarial valuation of promised retirement benefits. These estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual report and financial statements. We have considered the disclosures around the estimates, including sensitivity analysis and concluded that they are appropriate.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Funds will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts beyond those already made.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.

Qualitative aspect considered	Audit conclusion
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts 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.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

4. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Funds' planning processes support the future delivery of services.

The Funds have effective arrangements in place to ensure the ongoing sustainability of the pension funds.

The focus of their investment strategy is to ensure a sufficient return over the long term to meet the funding objectives outlined by the Funding Strategy Statement. Performance over 5 years shows they are managing investment around the benchmark.

There is an ongoing risk that the pension scheme is not affordable for admitted bodies and Lothian Pension Fund has reported an increase in the number of bodies leaving the Fund and an increase in the cessation liability following the 2017 triennial valuation.

Significant audit risk

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

Financial sustainability: Market volatility

The Funds held investments of £7.789 billion as at 31 March 2019. 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 recently updated and approved by the Pensions Committee in December 2019.

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.

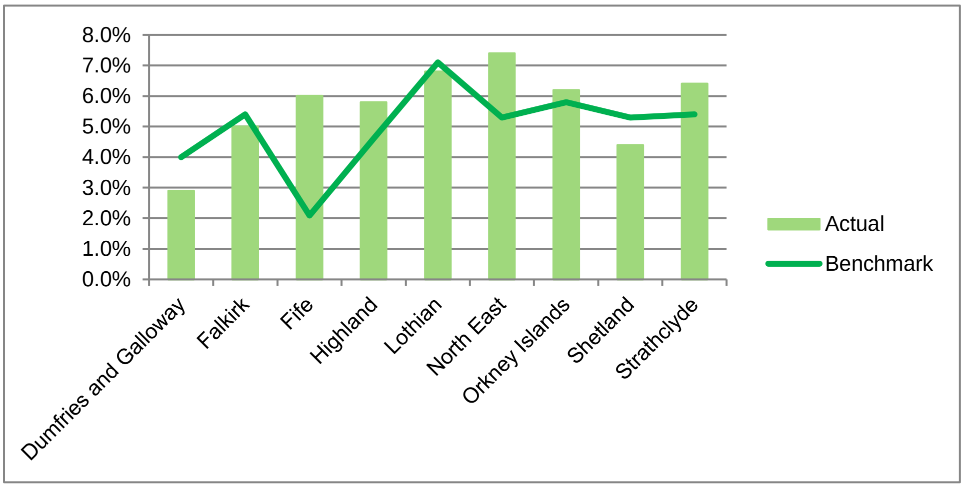
While it is noted that the Funds investment strategy is designed in such a way to withstand market volatility in the long term, we have noted that worldwide political events had a significant impact on the market in 2018 and 2019, with this volatility expected to continue in 2020. There is a risk that the value of investments is significantly impacted by events within the wider political environment.

Excerpt from the 2019/20 External Audit Plan

73. Financial sustainability of the Funds relates to the performance over the longer term. The investment objective of the Funds is to achieve a return on the fund assets which is sufficient over the long term to meet the funding objectives outlined in the funding statement strategy.

74. When considering the risk over market volatility we have considered the performance over the longer term.

Exhibit 3: Annualised 5 year returns across LGPS Scotland Funds against benchmark



Source: Unaudited Pension Fund Annual Report and Accounts[4]

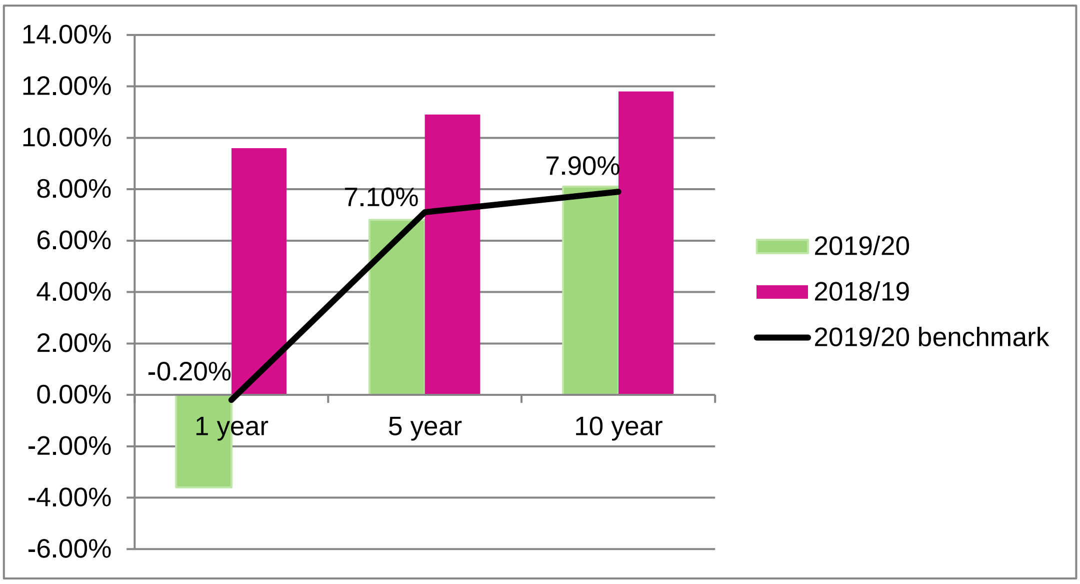
[4] Scottish Borders Pension Fund do not publish their 5-year annualised return. As at the time of writing, Tayside Pension Fund have not published their unaudited accounts for 2019/20.

75. Benchmarks are set locally to reflect the different long-term investment requirements to support future pension payments of each fund.

76. Lothian Pension Fund is reporting the second highest annualised 5-year return. Whilst the 5 year returns for LPF are below benchmark, the 10-year returns are 8.1% against a benchmark of 7.9%.

77. No benchmark was set for Scottish Homes Pension Fund as investments are mandated by the Scottish Government to be held in gilts.

Exhibit 4: Performance LPF of against benchmark and compared to prior year



Source: Unaudited Lothian Pension Fund Annual Report and Accounts

78. We have concluded that the Funds have an appropriate approach to managing investments; however, within the current political climate market volatility will continue to be a risk.

79. The Funds' have this as a risk on the risk register and it is currently rated green due to the predicted low impact on service delivery and likelihood of occurrence.

Employers within the scheme

80. A full actuarial valuation in 2017 highlighted that Lothian Pension Fund was behind the target level for funding (98% against a target of 100%). Both Lothian Buses Pension Fund and Scottish Homes Pension Fund were ahead of target.

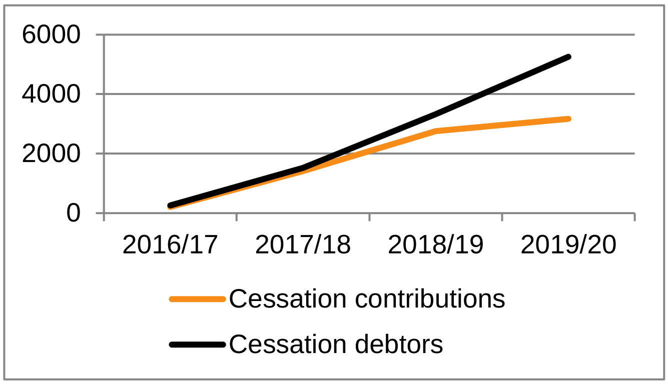
81. Contribution rates across employers within Lothian Pension Fund generally increased leading to affordability issues.

82. In recognition of this Lothian Pension Fund updated their Funding Strategy Statement with a requirement for employing bodies to confirm their commitment to meet the minimum contributions.

83. In 2019/20 three employers elected to leave the Fund.

84. The level of cessation contributions has increased by 1,424% since 2016/17, with the long-term debtors relating to ceased employers rising by 1,929%.

Exhibit 5: Cessation contributions and debtors (£m)



Source: Lothian Pension Fund annual accounts

85. There is therefore an ongoing risk that an employer fails to pay contributions leading to increased contributions and pressure on other scheduled and admitted bodies.

Membership

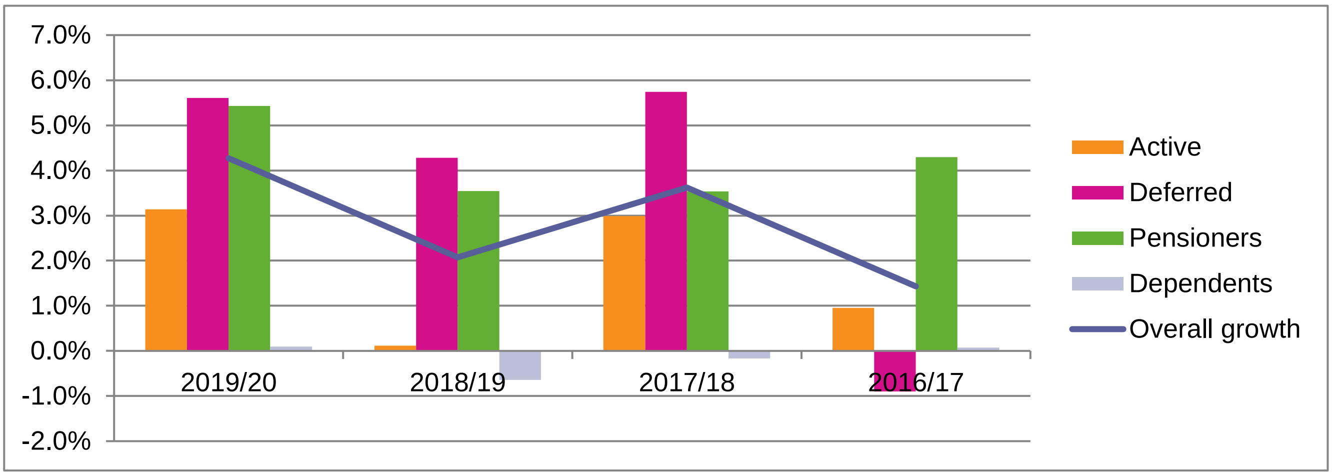
86. Lothian Pension Fund is a multi-employer fund with 14 scheduled bodies, including 4 Councils, and 58 admitted bodies. The scheme has a significant membership profile with active members being the majority.

87. This differs from Scottish Homes Pension Fund which is a single employer scheme and have a majority of inactive members (deferred, pensioners and dependents).

88. Following direction from Scottish Ministers received on 31 March 2020, Homeless Action Scotland was transferred from Lothian Pension Fund. This involved transferring 11 deferred members, 4 pensioner members, and 1 dependent member to Scottish Homes Pension Fund.

89. Analysis shows that although there is an overall increase in membership at Lothian Pension Fund, active members have been growing at a slower rate than deferred members and pensioners.

Exhibit 6: % year on year growth in members across categories



Source: Lothian Pension Funds Annual Report and Accounts

90. The fund relies on active members to meet the payments to pensioners and there is a risk that if growth in pensioners, increases at a faster rate than active members additional affordability pressures will be faced by Lothian Pension Fund.

91. It is, however, noted that active members have only decreased by 1.5% as a proportion of total members moving from 42.1% of members in 2016/17 to 40.6% of members in 2019/20. Pensioners have increased by 0.7% as a proportion of the total members and in 2019/20 make up 30.3% of the membership of Lothian Pension Fund. The movement is therefore slow, and this is likely to be a low risk area with regards to financial sustainability.

5. Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

The Funds have effective arrangements in place for financial management and the use of resources

Lothian Pension Fund's investment performance decreased in 2019/20 due to the impact of the global outbreak of COVID-19 on market prices.

The net assets of Lothian Pension fund have decreased in 2019/20 and Scottish Homes Pension Fund assets have not moved. The funding level has decreased across both funds.

Investment performance

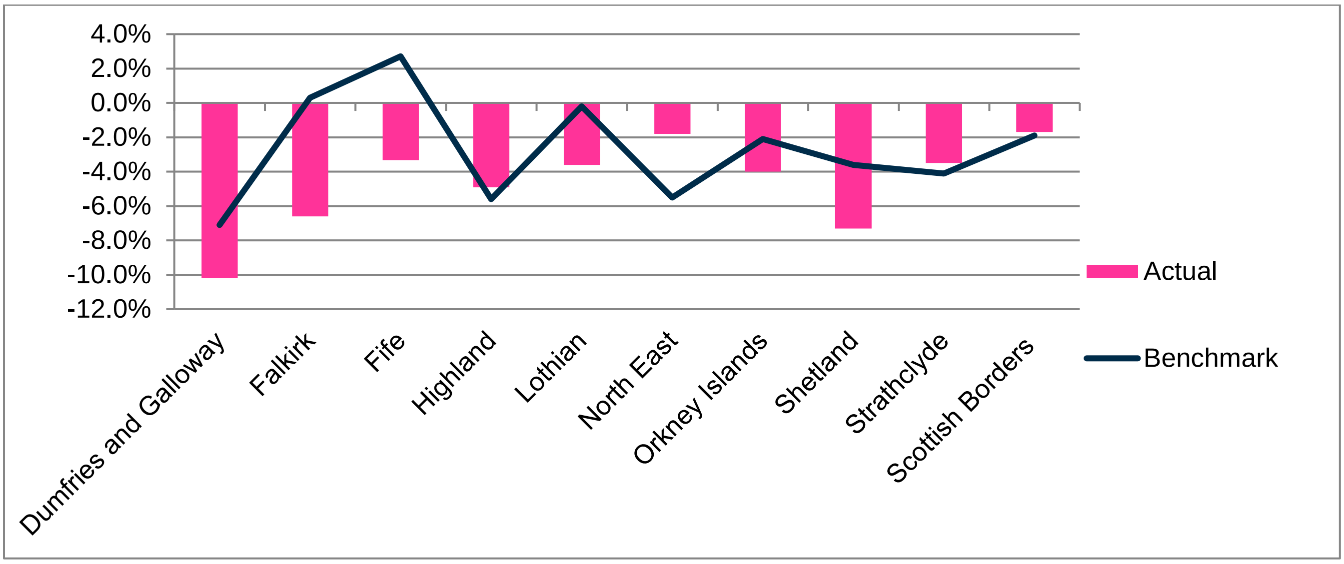
92. The Funds report their performance with regards to returns on investments as part of the annual report and financial statements. As shown in Exhibit 8 below Lothian Pension Fund, reported performance below the 1-year benchmark.

93. Investment performance across LGPS in Scotland was weaker in 2019/20 than in 2018/19. The average

94. return on investments in 2019/20 was -4.7% a large decrease from 7.1% in 2018/19.

95. This considerable decrease can be attributed to the impact of the COVID-19 outbreak on the market value of investments as at 31 March 2020.

Exhibit 8: One-year investment performance across LGPS Funds



Source: Unaudited LGPS Scotland Annual Report and Accounts[5]

96. In line with the majority of funds across Scotland Lothian Pension Fund has not achieved their benchmark for the year.

97. We have highlighted in the past that the focus of the funds is long term stability and we have noted in the Financial Sustainability section that the longer-term performance is above benchmark.

98. The long-term results indicate that the investment portfolio is being managed appropriately.

Financial position

99. The movement in net assets of the funds varied across each fund as shown in Exhibit 9. Both funds have reported a net withdrawal position from dealings with members, which is consistent with prior year. In 2019/20 the decrease in the market value of investments at Lothian Pension Fund meant there was an overall decrease in net assets. Scottish Homes Pension Fund return on investments met the net withdrawal meaning the level of net assets was maintained from 2018/19.

Exhibit 9: Lothian Pension Funds' Financial Position (£ million)

	Net assets			Present value of retirement benefits		
	2019/20	2018/19	% Movement	2019/20	2018/19	% Movement
Lothian Pension Fund	7,480	7,819	-4.34%	8,774	9,435	-7.01%
Scottish Homes	166	166	0.00%	122	135	-9.63%

[5] As at the time of writing, Tayside Pension Fund had not published their unaudited accounts for 2019/20

Source: Lothian Pension Funds Annual Report and Accounts

100. Hymans Robertson provided an estimate of the present value of the promised retirement benefits. The net discount rate after inflation increased from the previous year. This resulted in a decrease in the obligation.

Financial Performance

101. As part of our audit we considered the Funds' systems of budgetary control and financial management and did not identify any significant deficiencies.

102. Service update reports are provided to each meeting of the Pensions Committee. The reports include forecasts to the year-end and explanations for any movements.

103. The annual service plan and in year updates to the Pensions Committee forecasted a net withdrawals position for both Funds.

Exhibit 10: 2019/20 Forecast versus Actual Net Withdrawals from the Fund (£'000)

	2019/20 Forecast	2019/20 Actual	% Difference
Lothian Pension Fund	40,750	35,344	-13.3%
Scottish Homes	7,300	7,294	0.01%

Source: Lothian Pension Funds Annual Report and Accounts

104. In 2019/20 Lothian Pension Fund had a one-off transfer out of the scheme of £20 million for the transfer of Barony Housing Association to Strathclyde Pension Fund. This is considered to be the main driver of the increase in net expenditure from £14.5 million in 2018/19 to £35.3 million in 2019/20.

Systems of internal control

105. 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.

106. From our audit work on the pensions paid in 2019/20 we identified an issue in which two of our sample of 13 pensioners' annual entitlements had been incorrectly calculated by Altair, due to incorrect GMP data being transferred from the City of Edinburgh Council payroll system to Lothian Pension Fund.

107. From discussion with the pension's administration team, this is not deemed to be a control weakness. This is due to the fact that there are regular checks run to ensure the Altair and the payroll system reconcile meaning it is unlikely that this error will go unnoticed in the future.

108. No other issues were identified with the system of internal controls from our audit work.

109. We identified a number of areas for improvement in 2018/19 which were followed up at the year-end. We have reported progress against outstanding actions in appendix 2.

Prevention and detection of fraud and irregularity

110. 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 in 2018/19 but did so voluntarily.

111. We found the Funds' arrangements for the prevention and detection of fraud and other irregularities to be adequate and appropriate.

Standards of conduct

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

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

Internal audit

114. 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

115. In 2018/19 it was noted that the service did not fully comply with Public Sector Internal Audit Standards (PSIAs) in relation to quality assurance reviews. In

2019/20, it has been noted that these quality assurance reviews have been undertaken and that the internal audit team is now fully compliant with the PSIAs.

116. In 2019/20 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.

6. Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Governance arrangements at the Funds are deemed to be appropriate.

Our assessment has been informed by a review of the corporate governance arrangements in place, the information provided to the Board and Committees as well as the risk management arrangements in place.

The COVID-19 outbreak resulted in the Pensions Committee and Pensions Audit Sub-Committee only meeting three times during 2019/20. However, we are satisfied that all relevant reports were reviewed by the committees as required.

Governance structure

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

118. As outlined by the City of Edinburgh Council Scheme of Delegation the Pensions Committee has responsibility for the administration, management and investment strategy for the Funds.

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

120. 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 Pension Committee.

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

122. In line with legislation if more than half of the members of the Pension Board disagree with a decision of the Pension Committee then they can request in writing that the Pension Committee review that decision. There have been no requests to review decisions in 2019/20.

Training and development

123. 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.

124. Our review found that all current Pension Committee and Board members met the requirement to have a minimum of 21 hours training.

Joint Investment Strategy Panel

125. 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:

- Chief Investment Officer, LPFI Ltd;
- A second senior investment officer of LPFI Ltd; and
- two external independent investment advisers.

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

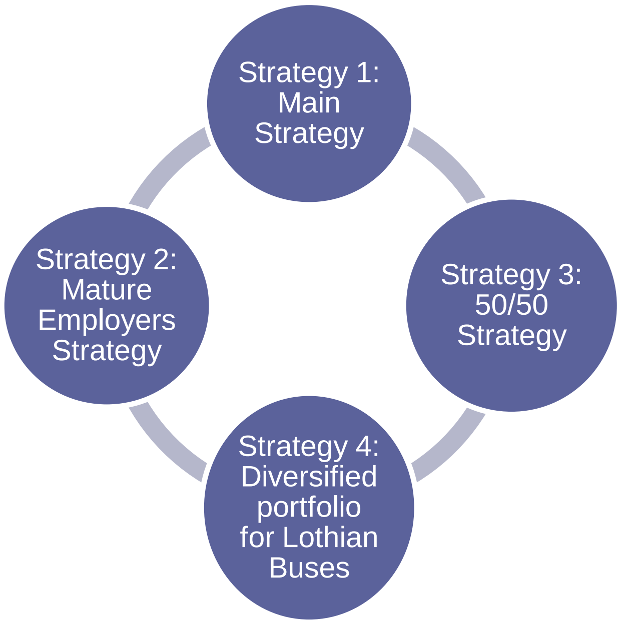
127. The Joint Investment Strategy Panel meets quarterly and considers the appropriate investment management structure required to implement the Funds' investment strategy. In addition, it is responsible for:

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

128. The primary focus of the panel during 2019/20 has been the implementation 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.

129. From December 2019, Lothian Pension Fund operated four investment strategies recognising the differing requirements of the various scheduled and admitted employers.

Exhibit 11: Lothian Pension Fund investment strategies



Source: Joint Investment Strategy Panel annual report

130. Scottish Homes Pension fund achieved full funding at the 2017 actuarial valuation and therefore the strategy is low risk and designed to protect from short term market changes. This is similar to Strategy 2 which focuses on investments in UK gilts and cash.

Impact of EU withdrawal

131. Audit Scotland has highlighted EU withdrawal as a significant risk facing public bodies across Scotland. Three streams of potential impact were identified:

- Workforce;
- Funding; and
- Regulation.

132. The Funds have considered the impact across all three areas and have identified that this is an area of low risk for the pension fund. From an initial assessment of the workforce and funding streams no significant implications have been identified. This is in line with our understanding of the nature of the Funds'.

133. Regulations may have a more significant impact; however, the Funds consider that as a UK based pension Fund collaborating with other UK based funds the impact is expected to be limited

134. The primary consideration was the impact of the EU withdrawal on movement in investments and as outlined in the financial sustainability and value for money sections the Funds have tailored their objective and approach to focus on long term safeguarding of returns.

Impact of COVID-19

135. As a result of the COVID-19 pandemic, meetings of the pensions committee and the pensions audit sub-committee have been held remotely.

136. The pensions committee and audit sub-committee are required to meet four times a year, however, in 2019/20 there were only three meetings held due to the cancellation of the committee meetings in March 2020.

137. Business that would have been covered at the March 2020 meeting was appropriately covered at the June 2020 committee meetings.

7. Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered

The Funds' investment performance is subject to regular review by the Pension 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.

Investment manager operations

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

139. 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.

140. Effective leadership is key to the success of the Funds achievement of objectives. There were no significant changes to the leadership team at LPFI Ltd, and the team continued to operate effectively.

141. In 2019/20, the proportion of funds managed internally increased from 85% in 2018/19 to 92% in 2019/20. This is due to the investment property portfolio moving from being managed by Aberdeen Standard Life to being managed in house.

We have reviewed the transfer of the management of the investment property portfolio and detailed our findings in paragraphs 26 - 27.

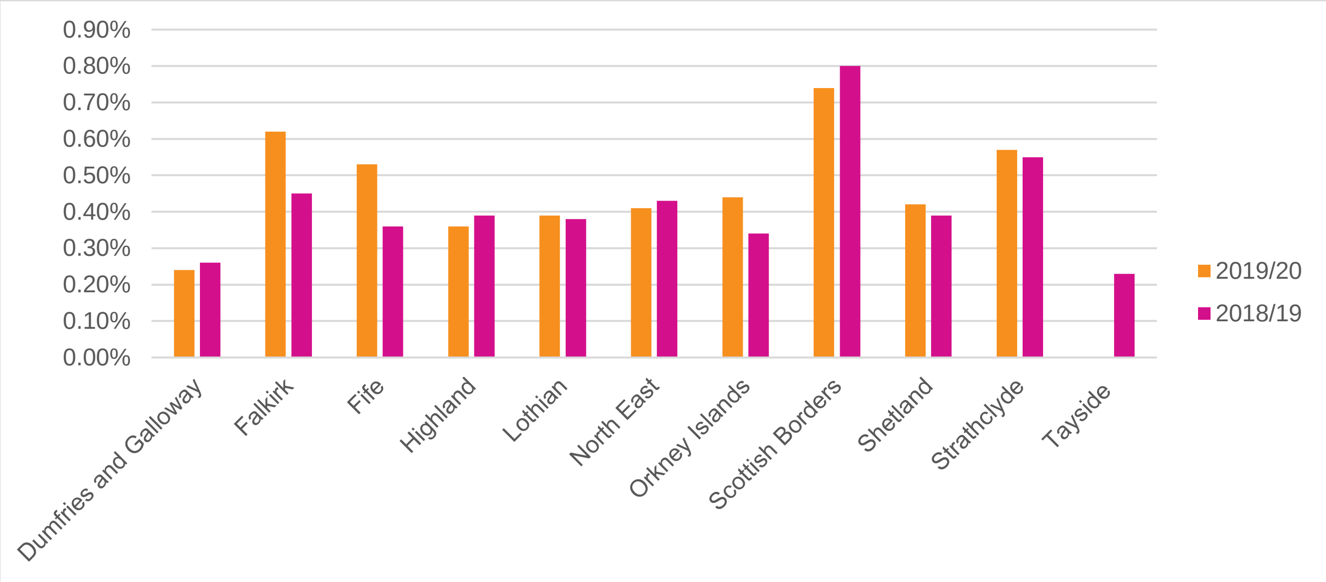
Management expenses

142. Lothian Pension Fund reported management expenses of £35.126 million in 2019/20, a decrease of 9% from the prior year.

143. Management expenses are split into three main categories: administrative costs; investment manager expenses and oversight and governance costs. Investment management expenses account for 85% of total management expenses.

144. 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.

Exhibit 12: Management expenses as a proportion of net assets



Source: LGPS Scotland Unaudited Annual Report and Accounts[6]

145. The analysis above does not include indirect investment management costs as CIPFA guidance states that only direct investment management costs i.e. those that the fund can control should be reported. Lothian Pension Fund reported £0.955 million of indirect manager expenses in 2019/20. It is not possible to benchmark the impact of indirect management costs across Scottish Local Government Pension Funds.

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

147. The Funds undertake annual benchmarking exercises using externally provided data, covering 37 LGPS funds and a wider global universe of 325 funds.

148. Analysis of investment costs is carried out by an independent provider, CEM benchmarking Limited. In 2019/20 Lothian Pension Fund reported an actual investment cost of 0.39% of net assets which was below the benchmark of 0.48%.

149. The Funds credit the improved performance against benchmark to the high percentage of assets managed internally.

150. Analysis of pension administration costs was undertaken by the Chartered Institute of Public Finance Accountants. Pension cost per member was in £22.09 in 2019/20, which is higher than the average cost of local authority funds of £21.34. The cost per member is broadly deemed to be in line with other local authority funds who operate within the range of costs of £13 to £48 per member.

151. The Funds have noted that there are restrictions over the comparability of the data and that the membership composition can have a significant impact on the cost. It is noted that there is a high degree of variation across the membership across LGPS Funds.

Monitoring investment performance

152. There is an annual review of investment performance 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 Pension Committee and Board Members are engaged in monitoring the performance of investments.

153. 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, yearly, 3, 5, 10 since inception yearly performance measures. This information is presented to the Joint Investment Strategy Panel to allow for scrutiny of the investment performance of the Funds.

Administrative Performance

154. The Funds' have a Service Plan in place covering the period 2018- 2020. The Pensions Committee receive

[6] At the time of writing, Tayside Pension Fund had not published their unaudited accounts for 2019/20

updates on the service plan at each meeting. The annual results for 2019/20 are presented in the Funds' Management Commentary.

155. The Performance Report highlights that the Funds are meeting the majority of their targets (70%) with 2 areas where performance was not in line with target levels and 1 area which has not been able to be assessed:

- Colleague engagement index – 69% against a target of 70%
- Investment performance and risk of LPF over a rolling five-year period – benchmark not met
- Maintain customer service excellence standard – assessment postponed due to COVID-19 outbreak

8. Appendices

Appendix 1: Respective responsibilities of the Funds and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Pensions Committee and the Chief Finance Officer, as Accountable Officer, to prepare financial statements in accordance with the Local Government (Scotland) Act 1973 and directions made thereunder.

In preparing the annual report and accounts, the Pensions Committee and the Chief Finance Officer, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Code of Practice on Local Authority Accounting (the Code) have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Lothian Pension Fund will continue to operate.

The Chief Finance Officer is also responsible for

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- give a true and fair view, in accordance with applicable law and the Code, of the state of the affairs of the Funds as at 31 March 2018 and of the income and expenditure of the Council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code;
- they 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;
- the information given in the Management Commentary is consistent with the annual report and financial statements.

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- There has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standards stipulate that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence.

Scott-Moncrieff provides accounts preparation, corporation tax services and ad hoc VAT advice to LPFE Ltd and LPFI Ltd which are subsidiaries of Lothian Pension Fund. In 2019/20 non-audit fees are estimated to be approximately £9,000.

All tax services are provided by an independent tax partner and staff who have no involvement in the audit of the financial statements. The accounts are prepared from trial balances provided by LPFE Ltd and LPFI Ltd and no significant policies, disclosures, adjustments, or estimates are decided by Scott-Moncrieff. In addition to this, Scott-Moncrieff also iXBRL tag the financial statements for submission to HMRC along with the corporation tax return. This tagging exercise is performed by an individual who is not involved in the audit of the financial statements.

We confirm that we comply with FRC's Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, the Funds', those charged with governance and senior management that may reasonably be thought to bear on our objectivity and independence.

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.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high-risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Follow up of prior year recommendations

Of the seven recommendations raised within our 2017/18 and 2018/19 annual audit reports, we note that five have been completed and two are ongoing. Details are given below.

1. Accuracy of forecasting information

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** In year service update reports highlighted that a net withdrawals position was expected, however, the forecasts were significantly above the year-end position with December being 118% higher than the actual position. **Risk** There is a risk that the year-end position is significantly different to the forecast position with an adverse variance. **Recommendation** We recommend the Funds takes action to improve the quality of forecasting information presented to the Pensions Committee.	It should be noted that the cashflow forecasts reported to Pensions Committee as part of the regular "Service Plan update" are prepared on a strict cash basis. This differs from the year end reporting which reflects accrual of both expenditure and income. This clarification is highlighted in the narrative of the regular reporting to Pensions Committee. Relevant extract from the meeting of 26 September 2018 is - **Membership and Cashflow monitoring** a. The tables below detail the cashflows as at the end of July 2018 and projections for the financial year. These have been prepared on a cashflow basis (compared to the accruals basis of the year-end financial statements and budget projections). In future the financial statements will disclose reconciliation to the cash accounting basis together with explanatory narrative for any significant variances. **Responsible officer:** Chief Finance Officer, Lothian Pension Fund **Implementation date:** 31 May 2020
Current status	**Audit Update**	**Management response**
Complete	The 2019/20 accounts have included a reconciliation to the cash accounting basis together.	Agreed

2. Registers of Interest

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** A compliance email has not been issued to the Pensions Board/Non-Elected Committee Members during 2018/19. This email should be sent on a quarterly basis; however, the last email was sent in March 2017. **Risk** There is a that the Funds do not hold an up to date register of interests for all the Pensions Board/Non-Elected Committee Members and is therefore unable to identify any potential related party transactions. **Recommendation** We recommend that compliance e-mails are issued in line with the stated policy.	Pension Board and non-elected members are required to sign a Code of Conduct, as well as making declarations to the Funds dual interest and hospitality register. The last item on the dual interest register was declared in September 2018. At Pension Board meetings, declaration of interest is a standing agenda item. Should there be no declarations of interest, this is recorded in the minutes. The Fund has been undertaking a governance review over the last few months which includes a review of the code of conduct for Pension Board and Non-elected Committee members. If the Committee approves the new Code of Conduct in September 2019, all Committee members and Board members will be required to sign the new Code of Conduct (this includes Councillors). Thereafter, an annual refresh will be required. Although the Fund does consider the risk to be low, it does acknowledge that compliance emails have not been sent to Pensions Board and Committee members (non-Councillors) during the financial year. To strengthen policies and procedures as well as raise the profile of compliance further, quarterly e-updates to Pension Board and Pension Committee members from September onwards will now include a compliance reminder section. **Responsible officer:** Chief Risk Officer, Lothian Pension Fund **Implementation date:** 31 October 2019

Current status	Audit Update	Management response
Complete	Through our review of related parties, we have confirmed that the quarterly compliance emails have been sent throughout 2019/20 to committee members.	Agreed

3. Review of bank reconciliations

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** As part of our testing of bank reconciliations we sample checked the controls in place across the year. We noted that for one sampled month the bank reconciliation had been completed but had not been reviewed by a senior member of the finance team. **Risk** There is a risk that there is an error in the bank reconciliation which is not detected. **Recommendation** We recommend that all bank reconciliations are subject to review by an appropriate individual.	Change in bank account reconciliation process took place during the year to become paperless. Month -end reconciliations are completed by the Finance team and then e-mailed to Finance management to review. Reconciliations have been reviewed. The recording (sign-off) of this validation, however, has not taken place. Procedure will be reviewed to better capture and record electronic approvals. **Responsible officer:** Chief Finance Officer, Lothian Pension Fund **Implementation date:** 31 October 2019
Current status	**Audit Update**	**Management response**
Complete	Our review of bank reconciliations prepared by Lothian Pension Fund throughout the year did not identify any instances where the bank reconciliations had not been appropriately reviewed. We have reviewed the processes in place for the treasury system at Lothian Pension Fund and found no issues with the internal controls in place.	Agreed

4. Verification of pensioner details

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** As part of our verification of controls we walked through a transfer out of a member. The sampled record did not have their date of birth confirmed or checked to supporting documentation. **Risk** This is a key control in confirming pension eligibility and could lead to an error in payments made. **Recommendation** We recommend that verification of key details are conducted in line with the stated procedures.	This case is an interfund transfer rather than a transfer to another pension scheme. An interfund transfer means that the member is transferring to the same scheme (LGPS) and the transfer value payment is simply a way of transferring the liability from one Fund to another. There is an agreement between the Scottish Funds that dates of birth do not need to be verified if already verified by one scheme. In this case, however, this did not happen in either fund. The existing documented LPF administration procedure already reflected requisite date of birth verification. In this case, the procedure had not been correctly followed (human error). The importance of the check has been re-iterated to the pensions administration team, both orally and by e-mail communication. **Responsible officer:** Chief Finance Officer, Lothian Pension Fund **Implementation date:** 30 September 2019

Current status	Audit Update	Management response
Complete	Our audit work performed over transfers out of the scheme did not identify any instances where the pensioner details had not been verified as required. We have confirmed that the required procedures are in place to ensure that all staff are aware of the verification checks required.	Agreed

5. Publication of the financial statements

Initial rating	Issue & recommendation	Management comments
Grade 2	**Observation** In 2017/18 Lothian Pension Fund received objections to the accounts relating to the public right to inspect the accounts. The objections related to the wording in the public inspection notice and the availability of the annual report and financial statements on the Lothian Pension Fund website. **Recommendation** We recommend that the annual report and financial statements are posted on the Lothian Pension Fund website, following approval from the Pensions Committee and in line with the public inspection notice.	Recommendation is accepted. Following consideration of the Annual Report 2019 (and Financial Statements) Unaudited by Pensions Committee, this will be posted on the Lothian Pension Fund website, supplementing the prior disclosure of all the reports to that Committee on the Council's website. **Responsible officer:** Chief Executive Officer, Lothian Pension Fund **Implementation date:** June 2019
Current status	**Audit Update**	**Management response**
Complete	Our review of the public inspection notice for accounts found that the unaudited accounts were posted on Lothian Pension Fund's website for public inspection. We also confirmed that all the regulations had been complied with for the public inspection of accounts.	Agreed

6. Bank accounts

Initial rating	Issue & recommendation	Management comments
Grade 3	**Observation** The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. require administering authorities to hold a separate bank account for funds and to be used to hold pension fund money. There is an ongoing issue that although the Funds' held their own bank accounts, monies were transferred to the City of Edinburgh Council holding account and the money was managed through this account. Actions were taken in 2017/18 to progress the issue of compliance, however, significant delays mean that during the year the Funds were not in fully compliant with the regulations. **Recommendation** We recommend the Funds put arrangements in place to ensure compliance with the regulations.	Quotation for a stand-alone ledger for the Funds was also sought from CGI, the Council's ICT provider, but this did not offer a cost-effective solution. Whilst LPF now fully anticipates a successful project delivery by the Council and CGI, with integration of the LPF requirement in the ledger specification, the option of complete separation, i.e. LPF to procure an alternative to the Council solution, is retained as "last resort". **Responsible officer:** Chief Finance Officer, Lothian Pension Fund **Implementation date:** As soon as possible, subject to the implementation of a revised financial ledger system by the Council to incorporate this functionality, or alternatively a separate procurement by LPF.
Current status	**Audit Update**	**Management response**
Ongoing	The resolution of this issue is linked to the procurement of a new ledger system which has not progressed in 2019/20.	The Fund continues to investigate the possibility of retaining the Oracle accounting system and implementing a "separate book of accounts" to the Council. The Fund has requested a random order of magnitude quotation (ROM), through the Council contract with CGI, for this enhancement. This is being pursued, although it is acknowledged that any implementation would be dependent upon the prior upgrade by the Council to Oracle (version 12). The alternative option of completely separate ledger solution to that of the Council remains. Even if a "separate book of accounts" is achieved by either of these means, it is emphasised that the Fund may continue to require to operate a Council bank account. As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional discretionary unfunded teachers' and employee pensions are paid with the payment of funded pensions. In order that such are not regarded as "unauthorised payments" by HMRC, these pension payments are met by the administering authority through a general fund bank account and recharged to the body or service which granted the benefits. As disclosed in its Annual Report for the last two years, the Fund has approached the SPPA with a proposal to transfer the administration of all unfunded payments to SPPA, thus eliminating the need for a Council bank account. SPPA has advised that it is currently evaluating the business case and a definitive response is expected shortly.

7. User access controls

Initial rating	Issue & recommendation	Management comments
Grade 3	**Observation** Our review of the journals environment identified that all City of Edinburgh Council staff with access to Oracle, the financial ledger system, have the ability to post to the Funds' financial ledgers.	Recommendation is accepted. **Responsible officer:** Chief Finance Officer, Lothian Pension Fund
	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:** March 2019

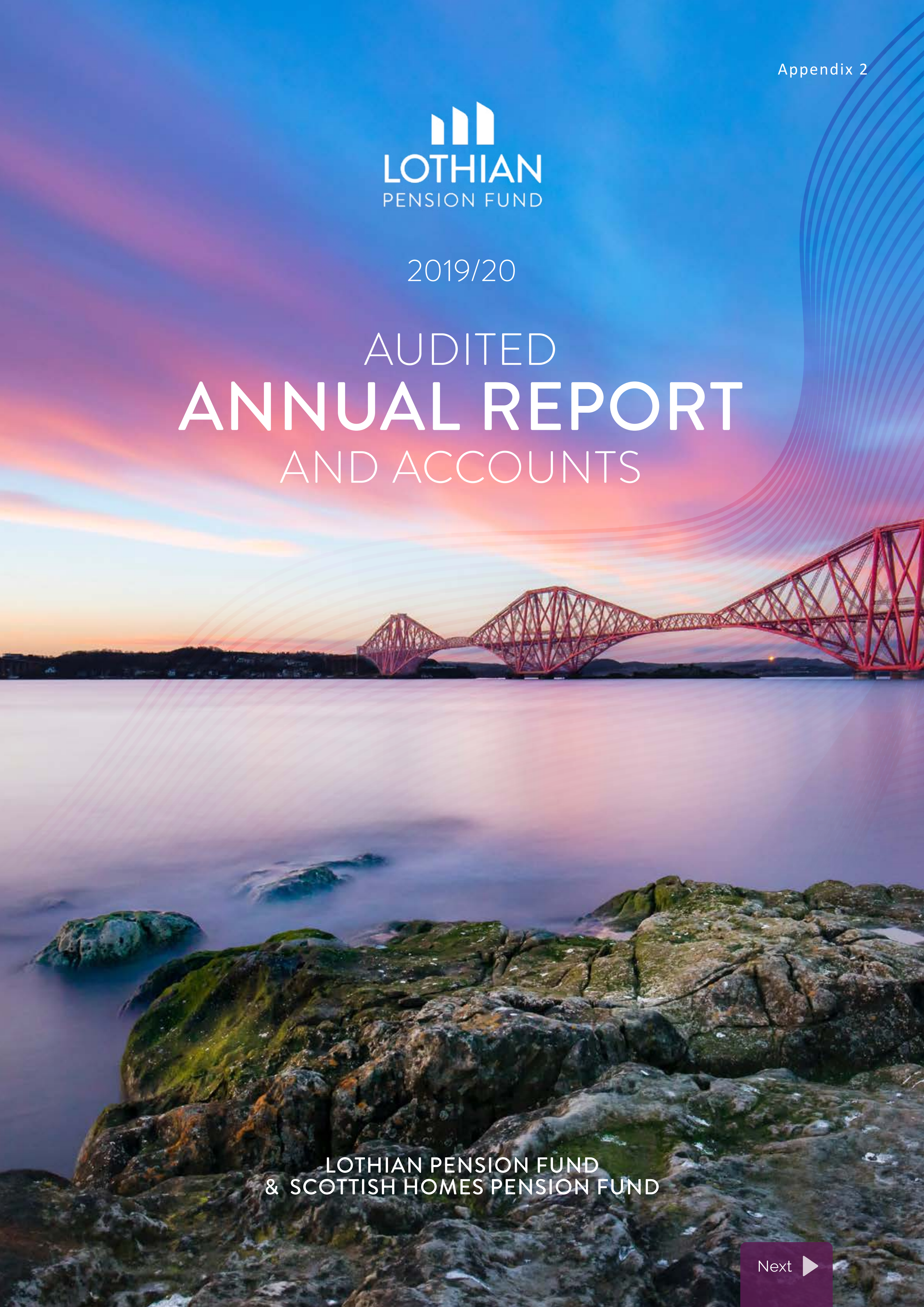
Current status	Audit Update	Management response
Ongoing	This is an ongoing issue in 2019/20, however, we did not identify any instances where journals were posted by inappropriate users.	Limitations of the current Oracle system preclude an automated solution to this issue, by either the Council or the Fund. Per follow up action 6, the Fund continues to explore the possibility of having its own self-contained book of accounts. The successful implementation of this would give the Fund full control of access to its ledger.

Appendix 2

LOTHIAN
PENSION FUND

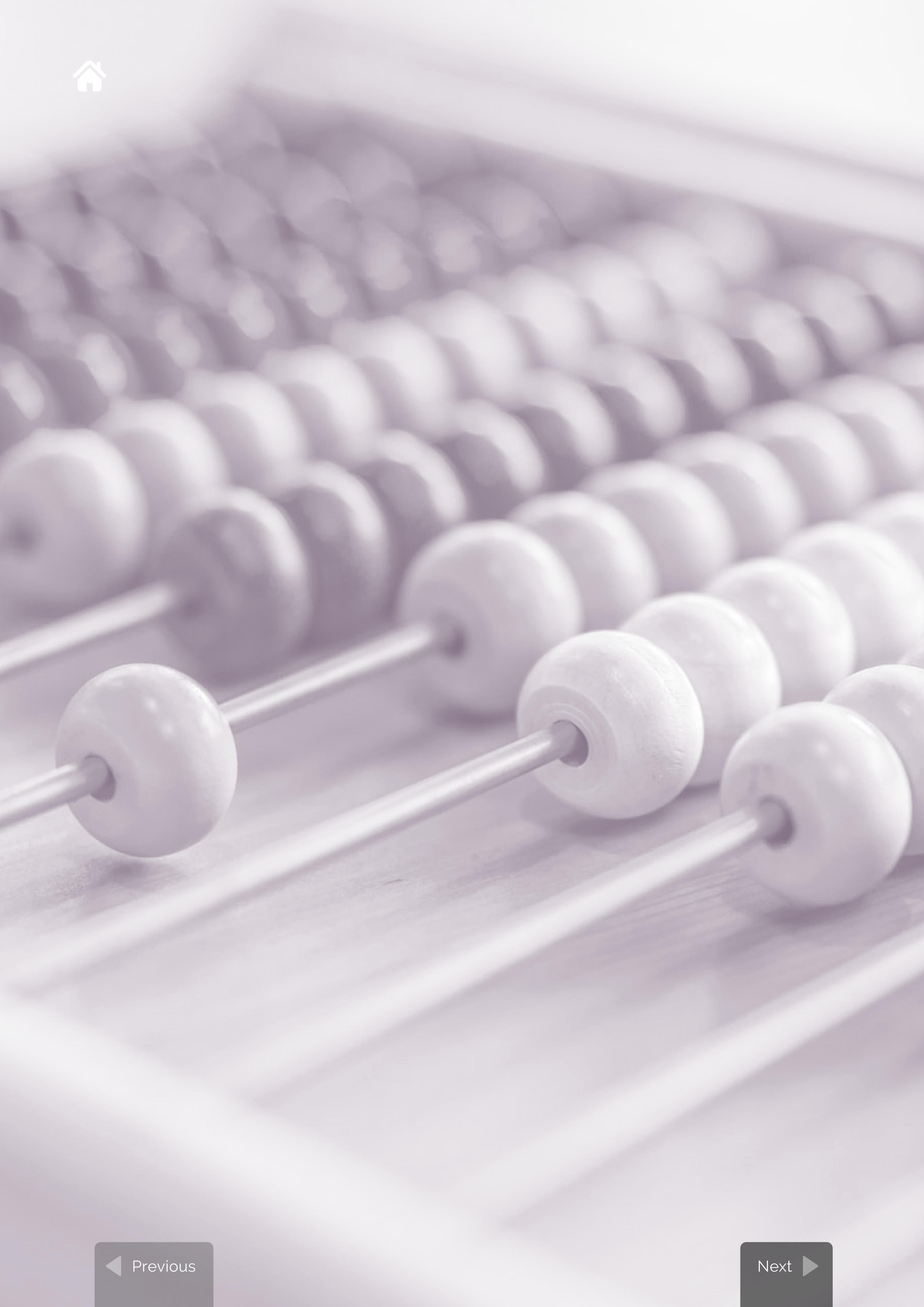
2019/20

AUDITED
ANNUAL REPORT
AND ACCOUNTS



LOTHIAN PENSION FUND
& SCOTTISH HOMES PENSION FUND

Next



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MANAGEMENT COMMENTARY / FOREWORD

Report by the Convener of the Pensions Committee

The end of this financial year has seen the world face an unprecedented situation with the Coronavirus affecting the lives of us all. During this period the team have shown professionalism and diligence to continue service delivery, and efforts continue to ensure this remains the case in the period that will follow. This challenging situation has affected some of the results reported in this publication and we have explained these areas and the effects throughout the report.

Turning to other issues, we still await further information on the Scheme Advisory Board in Scotland consultation on the LGPS structure started in 2018. Matters are progressing and we'll hear more about these in the future I am sure. We also await the specific remedies that follow the outcome of the McCloud case which relates to transitional protections given to scheme members in the judges and firefighters schemes which were found to be unlawful by the Court of Appeal on the grounds of age discrimination. In June 2019, it was announced that the Government had lost a case to appeal against the Court of Appeal ruling and the outcome of the case would apply to all public service schemes. While we wait for these remedies there continues to be an element of uncertainty on the value of liabilities.

At the end of the previous financial year the Fund appointed Doug Heron as Chief Executive Officer. During his first full year Doug and his leadership team have developed compelling plans for the Fund, supported by the Committee, and there are many examples of strategic progress including the implementation of a new front office system, a digital strategy for member service and the formation of a direct property investment team to manage the Fund's property assets internally.

The continued success of the Fund depends on the combined efforts of all and I would like to thank the Committee, Pension Board, employers and all the Fund's employees for their considerable work in delivering the service to members through difficult times.

Councillor Alasdair Rankin
Convener, Pensions Committee

MANAGEMENT COMMENTARY / FOREWORD

Report by the Convener of the Pensions Audit Sub-Committee

The Pensions Audit Sub-Committee's prime role is to monitors the operation of the Fund's internal controls, governance, risk and compliance arrangements and financial reporting.

We met three times during the year with a fourth meeting in March 2020 being cancelled due to the Coronavirus measures put in place at that time. Key activities included considering the Annual Report and Accounts as well as audit reports from both internal and external audit. Risk, compliance, fraud and investment custodian services were also considered.

The Sub-Committee plays a valuable role within the governance of the pension funds by providing additional scrutiny which adds value to members and employers.

Councillor Cameron Rose
Convener, Audit Sub-Committee

Report by the Chair of the Pension Board

The Pension Board comprises five representatives from both employers and members. The Board's primary function is to assist the administering authority in ensuring effective and efficient governance and administration of the fund. This includes compliance with the LGPS regulations and any other relevant legislation and requirements imposed by the Pensions Regulator in relation to the scheme.

The Board's deliberations are, of course, augmented by both officers of the Fund (on their specific areas of expertise) and by the Fund's Independent Professional Observer.

The Board usually convenes four times a year, however, due to restrictions of the 'Coronavirus Pandemic' it has only managed to meet three times. Board members have maintained regular communication via email and retained access to relevant information despite restrictions on face-to-face meetings. I'm glad to report that this limitation has not had any major impact on its continuing work over the past year and that meetings will now continue to be held remotely in line with the usual governance arrangements for the Fund.

Members of the Pension Board (and the Pensions Committee) are required by the Regulator to undertake regular training to be able to effectively undertake their important role. This necessary training is delivered jointly for both Board and Committee whenever possible. In addition, each member can also attend Conferences and other pension related external training to broaden their pensions knowledge.

MANAGEMENT COMMENTARY / FOREWORD

Based on the above requirement, I can confirm that this year Board members carried out over 300 hours of training, which highlights their dedication to the delivery of this important role.

Along with its usual primary functions, one of the Board's other key tasks this year has been actively seeking ways of broadening our links with the other Boards within the Scottish LGPS. To facilitate this objective, we invited members from the other Pension Boards to come along both to meet with us, observe our meetings and enable us to share ideas and good practice. This new initiative is ongoing and in the coming year we hope to develop these relationships further.

In addition to this 'outreach initiative', the Board also undertook an internal in-depth review of its present functionality. As a result, the Board was able to update and improve our original processes and procedures to ensure that we continue to effectively fulfil our key role to the Fund and all its members.

My two years as the Chair of the Pension Board have now come to an end and I'd like to thank all my colleagues on the Board (both past and present), the Committee and all the Fund's officers and colleagues for their assistance in enabling me to carry out this important role. It has been in equal measure both a challenge and a privilege.

In accordance with the Board's Constitution, Sharon Dalli (Employer Board Representative) has been elected and now takes over from me as the new Chair of the Board. I'm certain that going forward the Board will be in very capable hands.

Jim Anderson
Union representative and Chair of the Pension Board

MANAGEMENT COMMENTARY / FOREWORD

Report by the Independent Professional Observer

I was appointed as the Fund's Independent Professional Observer in August 2018. My role helps strengthen Fund governance by providing the Pensions Committee and Pension Board with independent guidance and impartial knowledge independently from the Fund officers.

With more than 30 years of pension experience working with pension trustees on topics including investment, actuarial guidance and governance, I hold surgeries and provide quarterly updates to assist the Pensions Committee and Pension Board with their oversight of the pension funds, with funding, investment and collaboration being considered along with normal business of funds. To ensure that I'm available to assist all those involved in the governance of the Fund, I also attend the Pension Board meetings, the joint Investment Strategy Panel once a year and all of the LPF training events.

Andy McKinnell
Independent Professional Observer

WHAT OUR MEMBERS SAY:

'I have never received such a fantastic service. The staff were polite helpful and very professional.'

MANAGEMENT COMMENTARY / FOREWORD

We're proud to serve our key workers

Our vision and purpose is to deliver a valued retirement savings product for our members. Our 90,000 members all share a single common link: in their working lives, they serve or have served the public and we're incredibly proud of their work and their contribution to communities.

In our active membership we have 122 school crossing guards, 101 occupational therapists, 166 waste operatives and 558 social workers and we're working hard to provide them with a secure retirement. During the year we paid £252.4m in pensions to 31,500 pensioner members, or their dependants. We welcomed 7,489 new members and handled 60,000 enquiries with a 96% member satisfaction score.

During the year I was pleased to spend time in focus groups with our members and heard first-hand how much they value their LGPS benefits, the role we play in their lives and how they wish to see us develop as a fund. I took extensive notes from these sessions and the views shared form the basis of our plans for the years ahead.

A challenging year

Benefits payable to our members are protected by statute and so remain secure whatever happens in the financial markets. The final months of our financial year saw unprecedented disruption in our lives as a result of COVID-19 and the effect of this disruption weighed on the financial markets too, impacting some of our risk assets. Further detail is included in later sections of this report, but members should be unconcerned by how such investment markets affect their benefits with us. Our funding levels remain strong and our long-term horizon and statutory protections mean benefits are in safe hands.

MANAGEMENT COMMENTARY / FOREWORD

Of course the impact was not just felt in the financial markets, but in every aspect of our lives. We're sorry to report that a number of members sadly died from this infection, and we have offered assistance to their family and friends through efficient administration, payment of grants to help with expenses, and in prompt commencement of any benefits payable to dependants. The team have worked from their homes since 17 March and have faced many personal challenges with home-schooling and caring for relatives. I have been deeply humbled by their efforts to serve our members in these difficult times and I thank all 72 of them for their work, their resolve and their fortitude.

At the date of this report we're closely monitoring public health guidelines and the various aspects of the response with a view to ensuring the Fund, its members and our colleagues are protected. As a result, we continue to work from our homes and have adapted many ways of working to ensure we have sufficient resilience to deliver on our critical activities which includes serving our members.

Our employers have also been deeply affected by disruption and many of them face a year of significant financial uncertainty as a result of lost income or unplanned expenses. We're in close dialogue with our employers concerning their membership and obligations to the scheme.

Significant progress made

Despite the disruptions, 2019 / 20 was a year of significant progress for the team and there were many notable highlights. Within our team, we welcomed Helen Honeyman as Head of People and Communications, and Nicola Barrett and Lisa Pollock as we built a team to manage our directly held property assets internally, resulting in significant cost savings and increasing our level of control on how that strategy is executed. We also extended our investment partnerships with other LGPS funds and broadened the scope of the FCA authorisation for our investment firm, LPFI, establishing the potential for us to move beyond strategic advisory services to investment management.

On technology, we implemented an entirely paperless HR operating system, launched a new suite of websites, implemented member functionality to upload the documents we need, and we delivered an industry-leading investment order management system to streamline how our investment strategies are implemented. There's more to come here but I'm pleased with the momentum in our digital strategy.

Our new publication ENGAGE was launched in early 2020 with a positive reaction from stakeholders. We remain committed to being a responsible investor and we'll report on our key activities in this field in future issues of ENGAGE.

MANAGEMENT COMMENTARY / FOREWORD

Complexity in the LGPS

The Local Government Pension Scheme (LGPS) forms a core part of the employee proposition within the public services managed in local government and members enjoy secure benefits aiding attraction and retention of employees. Over time and with a number of well-intentioned policy interventions, the regulations on which those benefits are based and administered have developed multiple layers, become confusing for most members, and created a need for LPF and other LGPS schemes to offer increasing amounts of individual guidance to members. Our aim here is to make the complex as simple as we can, and to provide clear information from which members can make decisions about how and when to access their benefits according to their own circumstances. A simpler scheme with fewer layers would increase the potential for administrator efficiency, lower the operating costs of the scheme and allow members to more easily understand, and assign value to the benefits to which they're entitled. Setting the rules is beyond our remit but we stand ready to support any Government led initiatives that intend to achieve this outcome.

With McCloud, the Court ruling that age protections are discriminatory, we await an agreed remedy from HM Government, but the likelihood is that most members will reset back to the old rules and have a choice to elect into the new rules if they're beneficial. Such election may not be required when the remedy is finalised, and the member can therefore back a number of horses. This is likely to see us collate additional data on individual circumstances, generate tens of thousands of calculations and supply parallel benefit schedules to members each year. Readying for this we've closely examined our resourcing levels and started the process to train additional administrators, but our sponsoring employers will also feel the effect and we remain exposed to any limitations in their resourcing or systems.

Beyond McCloud, we look back to the driver of the 2015 rule changes and note this was intended to contain the cost of the scheme to employers. Some of the savings are given up with McCloud and so we expect to see either future benefit reduction or additional member contributions towards the cost of their benefits. This may well be another new schedule to complicate things further, although we can be absolutely certain that it won't contain transitional age protections given the discrimination ruling.

MANAGEMENT COMMENTARY / FOREWORD

The LGPS in Scotland

In 2018 the Scheme Advisory Board (SAB) launched a consultation on the future structure for the 11 LGPS Funds in Scotland. The responses can be viewed through the SAB website, with LPF indicating its support for a merger of like-minded funds to achieve a range of benefits. The SAB hasn't yet concluded its work but expects to conclude in the coming financial year. If the conclusion of this consultation is likely to impact our membership or create scope for us to merge with any other funds, we'll report in more detail as developments occur.

An operating plan for the year ahead

At the beginning of the current financial year (2020/21) we published our Operating Plan which set out the work we'll do under six broad target outcomes. Behind each are specific targets and I look forward to reporting to you on this work when we present our report and accounts next year. The target outcomes are:

- Provide secure and affordable benefits for our members
- Reduce complexity
- Manage our risks
- Create a place where great work happens
- Influence the LGPS of the future
- Be responsible

Finally, we must recognise those in our governance structure, primarily our Board and Committee, for their challenge, scrutiny and counsel during the year. Through these bodies we're able to access deep pools of experience, perspective and ideas and we value all such contributions.

Dr Stephen S Moir
Executive Director
of Resources
The City of
Edinburgh Council
29 September 2020

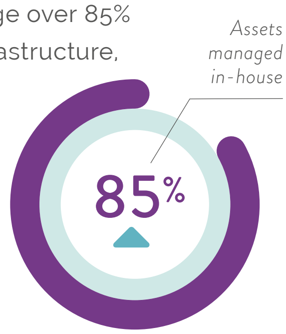
Doug Heron
Chief Executive Officer
Lothian Pension Fund
29 September 2020

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 £7.5 billion assets and 98% funded at our last valuation in 2017, managing 87,900 records of 81,500 members and 80 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 a closed fund and has 1,550 deferred and pensioner members with £0.16 billion investments. Members of Homeless Scotland Action were transferred into this fund recently.

Our investment team is unique in Scotland in holding FCA authorisation. We manage over 85% of assets in-house via internal equity, bond and other real asset portfolios (e.g. infrastructure, property and timberland investments).



We established a regulated investment company providing resourcing, operational support, governance and deal execution for our private markets and gained FCA authorisation in 2015. This enables collaboration with other LGPS funds on investment strategy, private markets, and listed and indirect property investments.

In March 2017, we became the first UK Local Government pension fund awarded accreditation for the Pensions Administration Standards Association and have held the Customer Service Excellence Award for the last 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 the Annual Report and Accounts of the Fund, Statement of Investment Principles, Funding Strategy Statement and Pensions Administration Strategy and Pensions Discretions Policy.

GOVERNANCE AND RISK

The Pensions Committee and Pensions Audit Sub-Committee

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

The Pensions Committee normally hold four meetings and the Audit Sub Committee hold three meetings per year. However, the meetings to be held in March 2020 were cancelled due to the timing of the coronavirus pandemic. The Committee and Board nevertheless received a full cycle of papers for the March Committee, before certain critical items were approved at the Council's Leadership Advisory Panel under emergency powers. Notwithstanding any continued restrictions arising from the prevailing coronavirus pandemic, LPF's governance structures will now continue to operate as designed, with future meetings of the Committees and Board being held remotely until such time as they can revert to usual arrangements.

The table below shows the Committee members for the year 2019/20:

COMMITTEE MEMBERS FROM 1 APRIL 2019 - 31 MARCH 2020

PENSIONS COMMITTEE	PENSIONS AUDIT SUB COMMITTEE
Councillor Alasdair Rankin (Convener)	Councillor Cameron Rose (Convenor)
Councillor Maureen Child	Councillor Maureen Child
Councillor Neil Ross	John Anzani (Member representative)
Councillor Steve Burgess (from June 2019)	
Councillor Cameron Rose	
Councillor Claire Miller (to June 2019)	
John Anzani (Member representative)	
Richard Lamont (Employer representative, VisitScotland)	

GOVERNANCE AND RISK

The Pension Board

The Pension Board was set up on 1 April 2015 as a result of 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 the Funds 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 of ten members, five representatives appointed from the employer bodies and five representatives appointed by trade unions for the membership of LPF. The Pension Board membership for 2019/20 is shown in the table below. There were two vacancies as of 31 March 2020.

MEMBER REPRESENTATIVES

Jim Anderson	Unison (Chair)
Thomas Carr Pollock	GMB
Brian Robertson	Unite
Thomas Howorth	Unison
Vacancy	
Neil Reid	Unite (appointed 11/11/19 resigned 22/01/20)

EMPLOYER REPRESENTATIVES

Sharon Dalli	Police Scotland
Darren May	Scottish Water
Alan Williamson	Edinburgh College
Lesley Henderson	West Lothian Council (appointed 25/06/19)
Vacancy	
Sharon Cowle	Scottish Legal Complaints Commission (resigned 28/10/19)

GOVERNANCE AND RISK

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 governance, ESG, responsible investment, contribution stability mechanism and club vita.

Committee and Board representatives also attended external conferences including the LGC Seminar Scotland in October and the PLSA Conference in March.

All members of both the Pension Committee and the Pension Board achieved the required training hours during 2019/20 except for one Pension Committee member and one Pension Board member who joined the LPF governance arrangements later in the year. Pensions Committee members collectively attended 289 hours of training as at 31 March 2020 and members of the Pension Board undertook 318 training hours.

Joint Investment Strategy Panel

Investment strategy guidance to the Committee is provided by a Joint Investment Strategy Panel (JISP), working in collaboration with the Falkirk Council and Fife Council pension funds. The JISP meets quarterly and includes senior officers and external independent advisers (currently Scott Jamieson and Gordon Bagot).

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

The JISP advises the three pension fund administrating 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.

A process is currently ongoing to re-procure the independent advisers on the JISP and, as part of that process, the three funds will look to put in place three independent advisers on the JISP, in addition to advisers from LPF's regulated investment vehicle, LPFI Limited (LPFI).

GOVERNANCE AND RISK

Lothian Pension Fund colleagues

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 the Fund). It's supervised by a board of directors, chaired by the Council's Executive Director of Resources and includes the Convener of the Pensions Committee. Our team carry out certain activities through our Financial Conduct Authority authorised vehicle, LPFI.

LPFI is also wholly owned by the Council (in its capacity as administering authority for the Fund) and is supervised by a board of directors chaired by the Council's Head of Finance. Both the boards of LPFI and LPFE comprise an independent non-executive director (Leslie Robb). A further non-executive director for each of LPFE and LPFI is anticipated to be appointed in the coming financial year.

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 investment, pension administration, employer liaison, data quality, customer support, accounting, people and communications, ICT oversight and governance, legal, risk and compliance and general business support.

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.

Over the year, the Senior Leadership Team (SLT) of the Lothian Pension Fund as at 31 March 2020 comprised:

- Doug Heron, Chief Executive Officer from February 2019
- Bruce Miller, Chief Investment Officer
- Struan Fairbairn, Chief Risk Officer, (Legal, Risk and Compliance)
- John Burns, Chief Finance Officer
- Mark Walton, Interim Head of People and Communications (until January 2020)
- Helen Honeyman, Head of People and Communications (from January 2020)

And, senior officers directly involved in the funds oversight structure from the City of Edinburgh Council were:

- Dr Stephen S Moir, Executive Director of Resources (Chair of LPFE board)
- Hugh Dunn, Head of Finance (Chair of LPFI board)
- Katy Miller, Head of Human Resources (Director on LPFE board)

GOVERNANCE AND RISK

Scheme Advisory Board

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 of seven representatives each from member and employers with a Joint Secretary to support each group. During the year, Councillor Rankin was a member and Chair of the Scheme Advisory Board and Fund officers have also advised the Board and Joint Secretaries. There's more information on the Scheme Advisory Board at www.lgpsab.scot.

Risk Management

LPF has comprehensive risk management and assurance procedures in place across its business functions and group entities. These include maintaining a group risk appetite, risk register and assurance mapping process, in conjunction with other underlying business and compliance processes.

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 itself comprises senior officers of each function within the group, as well as the Senior Leadership Team (SLT).

The approved risk register is tabled and considered by SLT following sign-off to ensure additional oversight and ongoing engagement with any resulting actions. Those actions are tracked and followed up by the Legal, Risk and Compliance team, in conjunction with the wider business, on an ongoing basis. The risk register is also circulated to the conveners of the Pensions Committee and Audit Sub-Committee, Chair of the Pension Board and Independent Professional Observer on a quarterly basis, with summary analysis and reporting provided to those bodies each quarter. In addition, an in-depth risk report is provided to the Audit Sub Committee annually, which includes a review of the full register.

GOVERNANCE AND RISK

Importantly, LPF's risk appetite and assurance structure are designed to 'flex' to ensure that they continue to be proportionate to the size and nature of our business, and also adhere to the following industry best practice principles:

- Ensure that our risk appetite aligns with our strategy and is set by the senior management team without undue influence
- Integrates risk as a key component of our management and decision-making processes
- Engenders an open, 'live' and engaged risk culture which seeks to pro-actively identify current and future risks for the business, simplifying layers of controls to ensure this is not stifled, and so…
- Not establish or perpetuate systems, controls or processes which are out of line with, or disproportionate to, the group's risk appetite
- Remain aligned to LPF's existing resources and organisational development
- Ensure an effective and independent risk and compliance function is maintained
- Ensure appropriate levels of separation and independence of each of the 'four lines of defence', as a general principle and in line with the standards of the UK regulated financial services sector
- Ensure appropriate levels of co-operation and information sharing across the 'four lines of defence'

As at 17 February 2020, the last meeting of the Risk Management Group in the year, the most significant risks (after taking account of risk reduction controls and as assessed using a score out of 100) are shown in the table below. Please note that these scores don't reflect the considerations of the additional meeting of the Risk Management Group held in April 2020 to consider COVID-19 impacts, which will be reported in next year's annual report.

Description	Impact	Probability	Risk Score
Adverse investment performance leading to pressure on employer contributions	5	4	20
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions	5	5	25
Failure of an employer to pay contributions causes either a significant fall in funding level or requires higher contributions from other employers	4	4	16
Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications	8	5	40
Colleague resource within the fund insufficient to carry out core task in conjunction with active or anticipated projects	6	5	30

GOVERNANCE AND RISK

Separately, we maintain a detailed risk monitoring and assurance process for LPFI. That focuses on the specific risks associated with that entity and its regulated business as part of its Internal Capital Adequacy Assessment Process (ICAAP). The LPFI board has oversight of this process.

Risk Assurance

LPF operate a bespoke assurance framework designed to ensure we have effective controls and oversight across the 'four lines of defence', being:

1. Business units
2. Control functions and internal oversight bodies
3. Internal audit
4. External audit and other external assurance

We maintain an assurance overview and mapping document which is updated on an ad hoc basis and reviewed annually by our Audit Sub Committee.

All this is designed to ensure that we meet our objectives, are adequately resourced, managed to high professional standards, meet legislative requirements and have high customer satisfaction.

WE'RE PROUD TO SERVE

101 OCCUPATIONAL THERAPISTS

LOTHIAN PENSION FUND

INVESTMENT

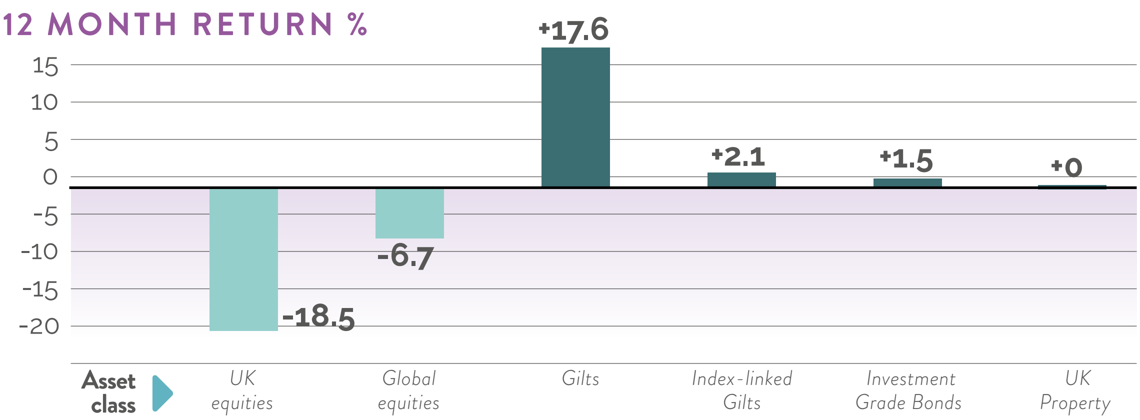
Investment markets

For the 12 months to 31 March 2020, UK equities (FTSE All Share) returned -18.5%, while global equities (MSCI ACWI, in GBP) returned -6.7%. The fall in global equities for sterling-based investors was mitigated by a weaker pound (global equities returned -10% in local currency terms). Sterling had strengthened over 2019 as UK political uncertainty cleared with the election of a majority Conservative government in December 2019. However, it then sold off sharply in March 2020 (along with risk assets) in response to the widening COVID-19 (coronavirus) pandemic. 12-month equity returns were dominated by the outsized moves in the first quarter of 2020 when UK and global equities (in sterling) returned -25.1% and -16.0%, respectively.

Government bond yields reached record lows in August 2019 as investors sought relative safety in the face of recession fears, in the process pushing the amount of negative yielding sovereign debt to an all-time high. However, the prospect of an initial trade agreement between the US and China buoyed risk assets and bond yields rose during the fourth quarter of 2019. Markets continued to perform strongly into early 2020, seemingly discounting any major economic impact from the January coronavirus outbreak in China. However, as international outbreaks emerged in mid-February, volatility rose.

At the beginning of March, Russia and Saudi Arabia started an oil price war as negotiations on production cuts to offset declining demand broke down. Combined with the increasing spread of the coronavirus pandemic, risk assets sold off sharply through to mid-March as equity market volatility rose to its highest level in the last 30 years. The Bank of England, the US Federal Reserve and other central banks reduced their benchmark interest rates close to zero to support their economies through the ongoing crisis. UK and US government bond yields ended the year to 31 March 2020 near their all-time lows.

The table below shows index returns over 12 months to 31 March 2020 for a range of asset classes.

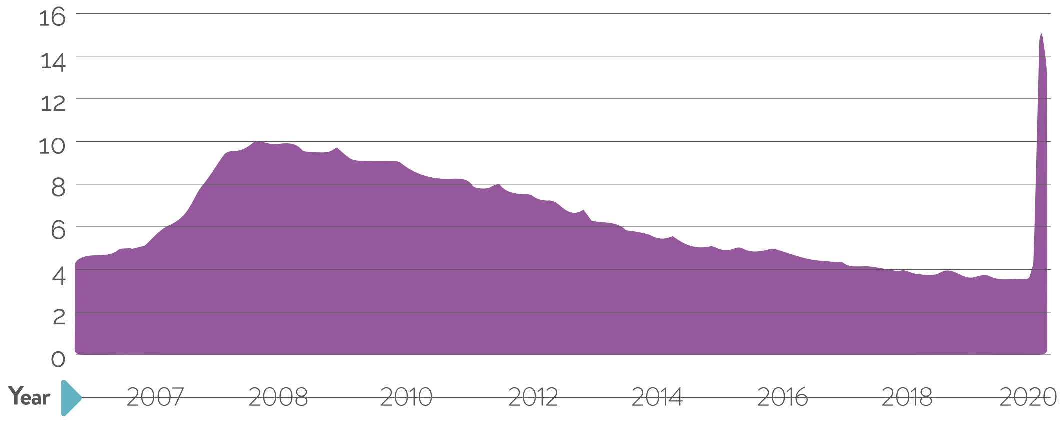


Source: Bloomberg and MSCI

INVESTMENT

The speed and severity with which lockdowns have impacted economies is illustrated in the chart below, which shows the surge in the unemployment rate in the US from 3.5% in February to 14.7% in April, vastly exceeding the peak of 10% during the global financial crisis.

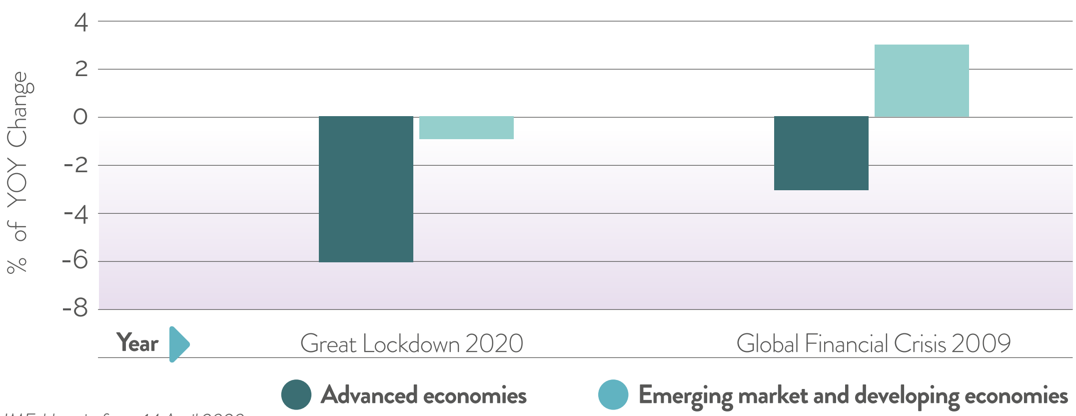
USA UNEMPLOYMENT RATE (%)



Source: US Bureau of Labor Statistics, Bloomberg

The most recent April 2020 forecasts by the IMF (in the chart below) also indicate that the damage to global growth will be worse than the downturn of 2008/2009.

REAL GDP GROWTH YEAR-ON-YEAR % CHANGE

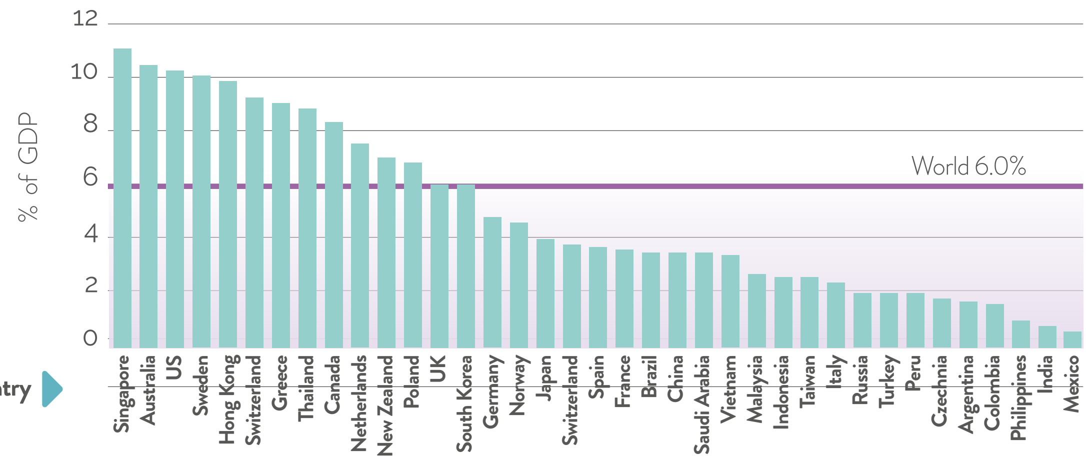


Source: IMF, blogs.imf.org, 14 April 2020

INVESTMENT

As the coronavirus crisis has unfolded, the scale of monetary and fiscal stimulus and support announced by central banks and governments worldwide has been unprecedented; fiscal stimulus measures alone have been estimated at c6% of global GDP (see chart below). Markets have responded positively with equities bouncing (at end April 2020) almost +30% off their mid-March lows. The market reaction suggests that many believe that the support may be enough to offset the deeply negative economic and business impacts, enabling a quicker return to normalised economic activity than more cautious observers are projecting.

NEW FISCAL STIMULUS MEASURES TO TACKLE COVID-19 IMPACT



Source: Macrobond, LGIM estimates, 24 April 2020

Investment strategies

The investment strategies for LPF reflect our long-term objective of maintaining an acceptable balance between contribution stability and the achievement of positive long-term real returns from the assets owned.

The most recent review of the investment strategies was undertaken in 2018/19, taking into account the results of the 2017 actuarial valuation. Investment strategies are set at the broad asset class level of Equities, Gilts, Non-Gilt Debt, Real Assets and Cash, which are the key determinants of investment risk and return. The strategic allocations for the Fund will be reviewed again following the results of the 2020 actuarial valuation.

INVESTMENT

Lothian Pension Fund

To provide suitable investment strategies for the differing employer requirements, the Fund currently operates four investment strategies. The strategies at 31 March 2020 are presented in the table below. The total fund strategy is simply a weighted average of the four individual strategies.

LOTHIAN PENSION FUND 31 March 2020	Main strategy	Mature Employer strategy	50/50 strategy	Buses strategy	Total fund strategy
Equities	65.0%	0.0%	32.5%	35.0%	62.0%
Real Assets	18.0%	0.0%	9.0%	18.0%	17.7%
Non-Gilt Debt	10.0%	0.0%	5.0%	20.0%	10.5%
Gilts	7.0%	100.0%	53.5%	27.0%	9.8%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

More than 90% of employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy aiming to generate relatively high investment returns within reasonable and considered risk parameters and hence reduce the cost to the employer.

A small number of employers are funded in the Mature Employer Strategy, which invests in a portfolio of UK index-linked and nominal gilts to reduce funding level and contribution rate risk to a level appropriate to their circumstances. The liabilities funded by the Mature Employer Strategy represent less than 1% of total Lothian Pension Fund liabilities.

COLLEAGUE PROFILE

Albert Chen, Portfolio Manager

Albert joined LPF in January 2017 as a Portfolio Manager with responsibility for the Fund's investments in credit, private debt and private equity. He also contributes on investment strategy as a member of the Asset Allocation Committee and supports the Fund in its work with collaborative partner funds and on LGPS issues. Albert says:

"I really enjoy being part of a team focused on generating positive investment outcomes for the Fund, its members and employers. Working with like-minded partners on shared investment challenges is an added bonus."

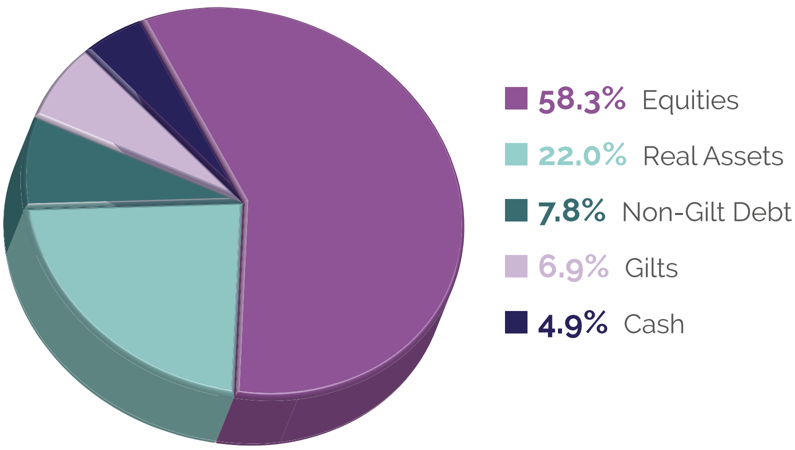
INVESTMENT

Just over 1% of liabilities are funded by the 50/50 Strategy, which is a combination of the above two strategies. The 50/50 Strategy is for employers who are closed to new members but who don't yet qualify for the Mature Employer Strategy.

Finally, the Lothian Buses employer is funded in the Buses Strategy. The liabilities associated with the Buses Strategy represent approximately 7% of Lothian Pension Fund liabilities.

The total fund strategy in the table above is the long-term target allocation to the five policy groups (or asset classes). The actual allocation at end March 2020 is presented in the pie chart below.

LOTHIAN PENSION FUND ACTUAL ASSET ALLOCATION (%) AT 31/03/2020



WHAT OUR MEMBERS SAY:

'I find the Fund staff very easy to talk to and helpful.
The human element is very important,
so please don't lose it.'

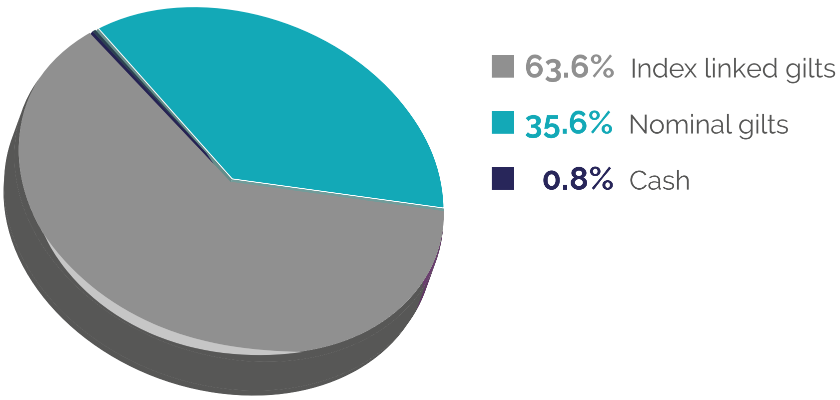
INVESTMENT

Scottish Homes Pension Fund

The investment strategy for the Scottish Homes Pension Fund is designed to minimise funding level risk. It's a relatively mature pension fund and is invested entirely in UK government securities (both index-linked and nominal gilts) and cash at 31 March 2020.

The implementation of the strategy reflects the nature of the liabilities, some of which are fixed and some of which are index-linked. The investments match the interest rate and inflation sensitivity of the liabilities as closely as possible. In addition, the cash flow of assets matches with future pension payments up to one year beyond the next actuarial valuation (end March 2020) to minimise transaction costs and funding level risk.

SCOTTISH HOMES PENSION FUND ACTUAL ASSET ALLOCATION AT 31/03/2020



Internal investment team

Investment strategies for the Fund are implemented and monitored by our experienced internal team of investment professionals supported by external advisers. Over recent years, our internal team has expanded with very positive effects on costs and capabilities.

During 2019/20, our internal team was expanded with the establishment of a team responsible for direct property investments to complement the existing property expert responsible for managing, monitoring and advising on indirect property for LPF and our collaborative partners. The team was also strengthened with the appointment of one senior and one trainee investment analyst. The majority of LPF's listed equity and publicly traded bond assets continue to be managed internally.

The focus on internal investment capabilities reflects the Fund's focus on cost-effective implementation of our investment strategy, but it also strives for improved governance, oversight and greater alignment of interest. One of our guiding principles is to use strong internal investment capabilities to their maximum potential and to retain external managers for specialist mandates.

RESPONSIBLE INVESTMENT

Responsible Investment (RI)

Lothian Pension Fund must deliver positive real returns on its investment portfolio over the long term to pay pensions. In our investing activities, we act in our members' interests by positively contributing to a more sustainable and resilient financial system, supporting sustainable economic growth and a thriving and fairer society.

We've been a signatory of the UN-backed Principles for Responsible Investment (PRI) since 2008 and align our practices and processes to their six principles and definition of Responsible Investment.

Our approach is informed by our investment beliefs, policies and priorities, together with regulations and statutory guidance. The six principles are embedded in our investment processes and everyday activities.

PRINCIPLE 1:

We'll incorporate ESG issues into investment analysis and decision-making processes

PRINCIPLE 2:

We'll be active owners and incorporate ESG issues into our ownership policies and practices

PRINCIPLE 3:

We'll seek appropriate disclosure on ESG issues by the entities in which we invest

PRINCIPLE 4:

We'll promote acceptance and implementation of the Principles within the investment industry

PRINCIPLE 5:

We'll work together to enhance our effectiveness in implementing the Principles

PRINCIPLE 6:

We'll report on our activities and progress towards implementing the Principles

PRI

'RESPONSIBLE INVESTMENT IS AN APPROACH TO INVESTING THAT AIMS TO INCORPORATE ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS INTO INVESTMENT DECISIONS, TO BETTER MANAGE RISK AND GENERATE SUSTAINABLE, LONG-TERM RETURNS.'

RESPONSIBLE INVESTMENT

PRI Annual Assessment

All PRI signatories agree to the PRI organisation undertaking a comprehensive annual assessment of their approach to RI. This independent appraisal is made publicly available on our website www.lpf.org.uk and a summary of Lothian Pension Fund's latest evaluation is shown below. It highlights that the Fund's processes and approach to Responsible Investment are rated at or above the median of asset owner signatories across all categories measured.

SUMMARY SCORECARD

AUM	Module Name	Your Score
	01. Strategy & Governance	A+
Indirect - Manager Sel., App. & Mon		
<10%	02. Listed Equity	A
<10%	05. Fixed Income - Corporate Non-Financial	A
<10%	07. Private Equity	A
<10%	08. Property	A
10-50%	09. Infrastructure	A
Direct & Active Ownership Modules		
10-50%	10. Listed Equity - Incorporation	A
10-50%	11. Listed Equity - Active Ownership	A

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 on behalf of our members and their dependants and have a fiduciary duty to act in a financially prudent manner and to consider factors of ESG in the context only 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. Lobby groups often present ethical arguments for divestment of specific investments. They create adverse publicity to further their campaigns, sometimes being selective in their use of facts to raise awareness and to create impact, often with an incomplete understanding of the investments that they oppose.

The issues raised by lobby groups often centre on complex social, legal or moral issues, and while we are unable to divest investments for these reasons, we can use the views of lobby

RESPONSIBLE INVESTMENT

groups, where supported by credible evidence, to support our assessment of financial risk. As a Responsible Investor, LPF engages with companies in whom we invest to influence improved ESG outcomes and our belief is that doing so as an active investor is more responsible than divestment.

Stewardship Code

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting transparency and integrity in business. It sets the UK's Corporate Governance and Stewardship Codes. The full LPF statement of compliance with the UK Stewardship Code can be viewed on our website.

Collaboration

There are limits to the influence that we achieve as a single investor and the resources we can reasonably commit. We recognise that progress can be best achieved on ESG issues through collaboration with other investors and organisations. We're an active member and supporter of several Global and Industry ESG Initiatives:

Principles for Responsible Investment (PRI)

We've been a signatory to the PRI since 2008 and focus heavily on how to implement the six Principles of Responsible Investment into our everyday work to be good stewards of capital. PRI is an important partner, providing excellent guidance on responsible investment and we work closely with them on the future direction of the organisation.

Federated Hermes EOS (EOS)

We've been clients of Hermes EOS since 2008 and they manage most of our voting and engagement activity. Our Internal Equities team work closely with EOS in our collective approach to engagement, reflecting the areas of stakeholder interest and concern. Through working collaboratively with EOS, and alongside EOS's international client base, we're able to have a stronger voice when engaging with our investee companies.

RESPONSIBLE INVESTMENT

Climate Action 100+ Global Investors Driving Business Transition

[Climate Action 100+ (CA100+)]

CA100+ is an international collaborative initiative encompassing investors representing over $40 trillion in assets. Signatories to Climate Action 100+ are requesting the boards and senior management of companies to:

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities
- Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2˚C above pre-industrial level
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2˚C, and improve investment decision-making.

Transition Pathway Initiative

[The Transition Pathway Initiative (TPI)]

TPI is a global initiative led by asset owners and supported by asset managers. Aimed at investors and free to use, it assesses companies' preparation for the transition to a low-carbon economy, supporting efforts to address climate change. TPI:

- Evaluates and tracks the quality of companies' management of their greenhouse gas emissions and risks and opportunities related to the low-carbon transition
- Evaluates how companies' planned or expected future carbon performance compares to international targets and national pledges made as part of the Paris Agreement
- Publishes the results of this analysis online through a publicly-available tool hosted by its academic partner, the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE).

We're a public supporter of TPI and the extremely useful data it produces.

[The Local Authority Pension Fund Forum LAPFF]

Local Authority Pension Fund Forum

LAPFF is a collaborative shareholder engagement group, comprising over 80 UK local authority pension funds and six of the LGPS pension fund pools in England & Wales. A member of Lothian Pension Fund's Pensions Committee, John Anzani, is on the executive board of LAPFF and has represented LAPFF and its member funds in high level engagement with company management.

RESPONSIBLE INVESTMENT

LPF also works closely with other asset owners in several semi-formal working groups including:

- The Cross-Pool RI Working Group: a group comprised of the heads of responsible investment at the English and Welsh local authority pensions pools, alongside representatives of many of the underlying schemes and the Scottish local authority pension funds
- The UK Asset Owners RI Roundtable: a group comprised of several UK asset owners including the local authority pools, many corporate schemes including Railpen, NEST and Unilever, and faith-based funds including the Church Commissioners and the Church of England Pensions Board
- The Scottish Asset Owners RI Roundtable: a new collaborative initiative between Scottish Asset owners. Members include local authority funds, Universities, and corporate defined-benefit and defined-contribution pension schemes.

All these groups aim to share best practice between asset owners with the aim of raising RI standards throughout the industry. We're very active in the initiatives of these groups.

Engagement

We believe that the best way to alter listed company behaviour for the better is through meaningful structured engagement with the management teams and boards of the companies that we hold.

The Fund commits significant resources to engagement activity, most of which is undertaken by the our voting and engagement service provider and partner, Federated Hermes EOS (EOS).

Federated Hermes EOS brings a focus and expertise to engagement activities, as well as scale, by representing a large number of like-minded clients.

As EOS engages on behalf of a wide shareholder base, they can effectively influence management to enact positive change in investee companies.

EOS consults with its clients to develop an engagement plan so that it can prioritise engagement activity. The latest plan (available on our website [insert link]) highlights 12 main themes for engagement over the three-year period 2019-21.

RESPONSIBLE INVESTMENT

In the diagram below, the themes surrounding the core subjects of engagement activity are: environmental matters; social issues; and strategy, risk and communication.

Each theme is described in detail in the engagement plan, including: background information on the importance of each theme; the main outcome objectives; the methodology for tackling each theme; and EOS's description of best practice in each area.

We stand behind EOS in achieving progress in each of these areas, and our Internal Equities team offers support and ideas to help them to carry out this vital work.

Our Internal Equities team undertakes formal and informal engagements during its many company management meetings each year. The highest profile of these is LPF's participant membership of Climate Action 100+, where the internal portfolio managers represent investors totalling $40 trillion of assets in engagement with a major European utility company.

FORTUM

As part of climate action 100+, our internal team at LPF has been engaging with Finnish utility company Fortum to improve its carbon performance. While Fortum is a leader in European renewables, it does have plenty of carbon intensive generation, particularly in its Russian business. The company has also recently acquired a controlling stake in Uniper, one of Europe's largest fossil-fuel based generators. We've had a series of meetings with the CFO, CEO and chair of Fortum and have delivered a statement (p50) at their 2020 virtual AGM. There's a lot of work that Fortum still needs to do, particularly around its plans for the acquired generation at Uniper and forthcoming coal phase-out in Europe, but the company is taking many of the right steps – it has been a long-time supporter of carbon pricing in Europe, and its top management has entered an open and honest dialogue with the climate action 100+ engagement group.

Recent announcements of a commitment to net zero by 2035 in the Uniper European business is a huge change in strategy for the business and we hope this will be followed by significant announcements on net zero and coal phase-out from Fortum.

RESPONSIBLE INVESTMENT

Voting

We vote on the resolutions of 100% of the companies in which we're invested. Two of our external providers are charged with voting on the Fund's behalf based on pre-agreed policies. This is done by Baillie Gifford, who manage assets for LPF, and EOS, our voting and engagement partner.
Annual General Meetings (AGM) present asset owners with another opportunity to influence management on important issues. Shareholders can file resolutions which allow all other shareholders to vote on matters that aren't raised by management.

We co-filed a resolution for BP's AGM in May 2019, calling for greater transparency and disclosure on the company's approach to carbon emission and low-carbon transition planning. The resolution was backed by BP management and supported by 99.14% of investors. BP has since committed to provide investors with a new strategy consistent with the goals of the Paris Agreement, as well as providing further disclosure on capital expenditure and various company metrics and targets, including annual progress reports.

Climate Change

As of February 2020, 196 states and the EU had ratified or acceded to the Paris Agreement of the United Nations Framework Convention on Climate Change, with the only significant emitters still not parties being Iran and Turkey. Under this agreement, each country must determine, plan and regularly report on the contribution it undertakes to mitigate global warming. The three key aims of the 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 culture with regards to 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.

RESPONSIBLE INVESTMENT

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 the Fund's approach to climate change-related risks and opportunities in its PRI reporting.

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.

The TCFD is in its relative infancy and LPF is challenging companies to improve their disclosure and is rapidly integrating the specifics of climate change into the risk management and governance of the Fund. Over the last few years, we have undertaken substantial work on the issue.

RESPONSIBLE INVESTMENT

Climate Change – Governance

In accordance with training policy, the Pensions Committee and Pension Board are required to undertake a minimum of 21 hours training. Each year, the Fund's provider of voting and engagement services is invited to present to and interact with the Committee and Board. During 2019/20, they received training on climate change-related risks and opportunities, and climate-specific reporting, including a carbon footprint of the Fund's equity holdings, which is now updated annually. The Pensions Committee's approach to climate change risks are encapsulated in the recommendations agreed in June 2018:

- Reaffirm the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends, into its decision-making
- Note that the Fund scrutinises and engages with investment managers to ensure that they are taking ESG issues, including climate change and carbon risk, into account in their investment decision-making
- Reaffirm the Fund's policy of not divesting solely on the grounds of non-financial factors
- Note that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies
- Agree that the Fund should aim to influence engagement activity based on its shareholdings of companies that perform poorly on carbon efficiency measurements.

The Committee and Board considers climate related issues as part of its annual review of the Fund's approach to Stewardship. In late 2018, LPF organised an event on our responsible investment approach and activities, to which major stakeholders and elected officials of local authority employers were invited. This provided the opportunity for discussion with investment managers, legal professionals, representatives from PRI and Hermes EOS and Committee and Board members. A recording of the whole event is available on our website, for those who want or need to understand the Fund's approach.

Climate-related risks and opportunities are an integral part of the overall investment process for LPF. The Pensions Committee is responsible for setting investment strategy and delegates investment decision-making to officers and investment managers with advice from the Joint Investment Strategy Panel. 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.

Academic research commissioned by Lothian Pension Fund suggests that divestment at best is ineffective, and at worst provides a clear disincentive for management to change.

The Fund's approach to engagement relies heavily on our engagement and voting partner, Hermes EOS. Hermes EOS engages with companies on a range of engagement issues including climate change. The internal management team also engages with company management on a regular basis as part of company road shows and investment conferences.

In addition, LPF has joined the Climate Action 100+ investor initiative and is actively participating in engagement with one of the 167 target companies in the list of systemically important carbon emitters identified by the initiative.

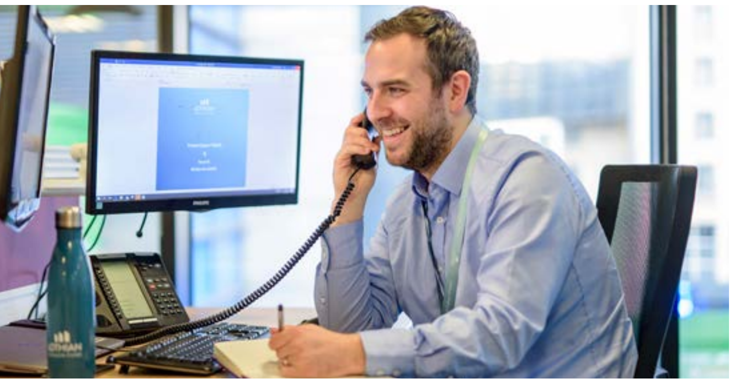
Regular training and development for all colleagues on climate related issues is provided. This includes governance functions, management, investment decisions makers, and pensions administration colleagues. This creates an internal culture that's serious about the risks to capital posed by the carbon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

**University of Edinburgh Master's in Economics Dissertation, "In response to the recent Paris Agreement, how might pension funds contribute to helping reduce global climate change through investment policy?", Cooper, 2019*

RESPONSIBLE INVESTMENT

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 with managers to improve practices. The selection and monitoring process for 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 public spending on green energy is 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. 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. To date, no divestments due to outsized climate-related risks have been made, but there has been meaningful engagement activity as highlighted above.

While it's widely acknowledged that Climate Change is one of the great issues facing society, it's one of several risks that the Fund 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 report a measure of carbon efficiency (the weighted average carbon intensity, with units of tons CO_2/\$M sales). We use a carbon efficiency measure as it

RESPONSIBLE INVESTMENT

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 weight these intensities according to the portfolio position sizes and add all the weighted intensities to give a figure for the portfolio and the index.

	2018 Weighted Average Carbon Intensity (tons CO2/$M sales)	**2019 Weighted Average Carbon Intensity** (tons CO2/$M sales)	**Year on year change**	**2020 Weighted Average Carbon Intensity** (tons CO2/$M sales)	**Year on year change**
LPF All Equities	328.6	325.2	-1.0%	294.9	-9.3%
MSCI ACWI	218.9	200.2	-8.5%	178.1	-11.1%

Source: MSCI

These numbers are presented on the basis of Scope 1 and 2 carbon emissions.

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

GRESB data in the infrastructure and real estate asset classes is being assessed and will be incorporated into reporting in these areas in future. Support for the Carbon Disclosure Project also allows access to useful research that's considered during due diligence on investments.

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". We firmly believe that global decarbonisation will provide benefits to society and the environment, and we therefore support efforts to reduce carbon emissions.

There is no reduction in global carbon output if LPF sells carbon intensive businesses.

The carbon intensity numbers as reported 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.

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 being an irresponsible divestor. We'll continue to engage with our holdings rather than setting specific carbon intensity targets for our overall portfolio.

RESPONSIBLE INVESTMENT

Infrastructure Investment

Infrastructure investments have the potential to generate attractive risk-adjusted returns, with cash flows often linked to inflation. The long-term and defensive nature of these assets can also provide an element of diversification to the Fund's investment strategy.

Over the last 15 years, LPF has developed our reputation, networking and execution capabilities to secure access to investment opportunities within this market niche. The Fund's experienced team appraises and invests in primary and secondary funds as well as co-investments, to achieve our target allocation in a cost-effective manner. An important element of the implementation strategy is to work closely with investment managers to ensure execution certainty and to diligence the commercial and legal terms. Collectively, with our collaboration partners, LPF committed over £300 million in infrastructure investment during 2019/20.

LPF has a long-standing commitment to responsible investment. In addition to becoming a signatory of the PRI (Principles of Responsible Investment) in 2008, we have subscribed to GRESB (Global Real Estate Sustainability Benchmark) to further enhance our analysis of environmental, social and governance (ESG) issues.

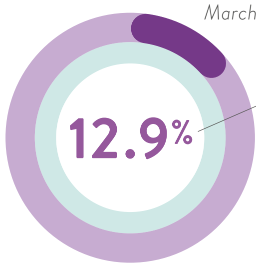
At 31 March 2020, 89% of the Infrastructure portfolio value was invested in assets/funds which were also signatories of the PRI and 32% of funds participated in the 2019 GRESB Infrastructure Assessment, a relatively new initiative. Most of Lothian Pension Fund's infrastructure funds also publish an internal ESG policy, outlining the consideration given to ESG issues within the decision-making and ongoing investment monitoring process, and this has become a standard requirement/consideration for manager selection.

Within the GRESB Infrastructure Assessments, participating funds and assets report annually to GRESB on their internal controls and policies. GRESB validates the submitted data and assesses the fund or asset with reference to a series of performance indicators, including the sustainability of its investment strategy, stakeholder relations and level of gender/diversity reporting. The aggregate scores determine a total fund or asset score which can be used to benchmark performance against its peer group.

Funds and assets across all infrastructure sub-sectors can participate in the GRESB Infrastructure assessments, but Transport and Renewable Power assets currently have the greatest participation rate within Lothian Pension Fund's portfolio.

Infrastructure investments represented 12.9% of the value of Lothian Pension Fund assets at 31 March 2020, comprising one of the largest and most diversified allocations among UK LGPS funds. Of the total infrastructure investment of £962 million (31 March 2019: £870 million), the majority is invested in the UK.

Infrastructure investments represented 12.9% of the value of LPF assets at 31 March 2020

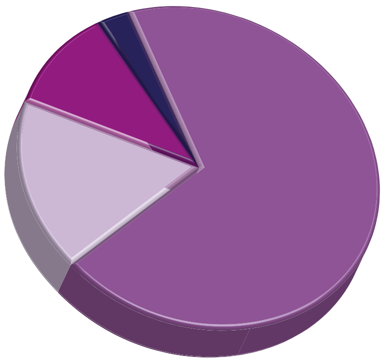


RESPONSIBLE INVESTMENT

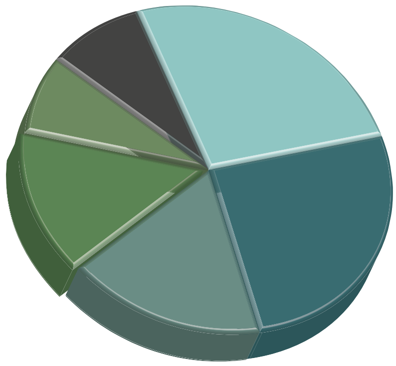
During 2019/20, Lothian Pension Fund completed investments in eight secondary fund interests and made three co-investments. Approximately £165 million has been invested over the year in UK, European and Global infrastructure assets. During the same period, £187 million has been distributed/returned to the Fund. Of note, there were two successful realisations generating proceeds of £80 million and recording a net internal rate of return over 20% and a total value to paid-in multiple of 2x. A sale of another of the larger assets was agreed, which crystallises proceeds of approximately £39 million in April 2020.

The geographic and sector diversification for Lothian Pension Fund infrastructure (as percentage of infrastructure asset value of £962m at 31 March 2020) is shown in the charts below.

GEOGRAPHIC DIVERSIFICATION



SECTOR DIVERSIFICATION



Infrastructure investments in the UK contributed 69% (or £661 million) of the total. The Fund's 20 largest UK investments, representing £407 million of value, are shown in the map below. Investments are made across a diverse range of projects, in the areas of:

- Utilities (including regulated water, gas and electricity)
- Social infrastructure (including hospitals, schools and roads)
- Renewables, Energy and Power (including wind farms, biomass and natural gas pipelines)
- Transportation (including ports and rail); and
- Telecom and Others (including telecom towers and car parks).

RESPONSIBLE INVESTMENT

We recognise the role infrastructure investment can make to address part of the current environmental challenges related to climate change. Approximately, 17% of the infrastructure portfolio is invested in renewable energy.

During the year, the Fund allocated c. £32 million to new investments in UK renewable energy projects and new opportunities continue to be appraised.

Since March 2020, the impact of COVID-19 on the Lothian Pension Fund infrastructure portfolio has been closely monitored. The portfolio sector bias towards regulated utilities, social infrastructure and renewable energy, includes essential critical assets which benefit from contracted or regulated income streams, and is expected to largely insulate the portfolio from material adverse financial impacts derived from COVID-19.

WHAT OUR MEMBERS SAY:

'The service provided has been excellent in every way. Thank you.'

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement covers the funding strategies for Lothian Pension Fund and Scottish Homes Pension Fund and can be viewed on our website www.lpf.org.uk/publications.

The purpose of the Funding Strategy Statement is to:

- Establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward
- Support the regulatory framework to maintain as nearly constant employer contribution rates as possible
- Take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually but may be mutually conflicting.

The Funding Strategy Statement also ensures that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the Funds (as defined by the Public Service Pensions Act 2013) are met.

Key policies, including the Fund's Admission Policy and Policy on Employers Leaving the Fund are appended to the Funding Strategy Statement. The policy on Employers Leaving the Fund sets out the Fund's approach to dealing with employer exits, including principles for determining payment of cessation debt.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement was revised at the 2017 Actuarial Valuation and reflects CIPFA guidance: "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016".

In addition, updates required as a result of changes to the Scheme Regulations and other pensions legislation included:

- The introduction of a new medium risk investment strategy intended to smooth the path to exit and reduce the deficit risk when an employer leaves the Fund
- The requirement for employers to provide written confirmation that minimum contribution rates set by the Actuary are not unaffordable.

As required by Scheme Regulations, the Fund consulted with employers as part of the review process. Further amendments were made in 2019 to incorporate changes to Scheme Regulations in 2018 and an update to the Fund's bulk transfer policy. The Funding Strategy Statement will be revised again as part of the 2020 valuation, with a further consultation exercise carried out as part of this process.

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 the Fund'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 2020. Member data will be supplied to the Actuary during Summer 2020, with results reported later in the financial year 2020/21.

COLLEAGUE PROFILE **Katy Bush, Trainee Solicitor**

Katy initially joined LPF as a Trainee Solicitor on a six-month secondment from City of Edinburgh Council in March 2019. She returned on a permanent basis in March 2020 and starts as Legal Counsel in September 2020 when she qualifies. She says:

"My role is extremely varied but primarily I provide legal support to the Investment and Employer teams. There are lots of reasons I enjoy working at LPF – the work is really varied and interesting, the environment is friendly and inclusive, and I've always been motivated to use my legal skills to provide a public benefit."

WE'RE PROUD TO SERVE

932 PUPIL SUPPORT WORKERS

FINANCIAL PERFORMANCE

Administration expenses

A summary of the Fund's administrative expenditure for 2019/20, 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 £31,317k against the budget of £32,951k represented an underspending of £1,634k (5%) for the Fund.
The most significant budget variances serving to generate this underspending were:

- **Employees – £537k underspending.** Following an organisational design review earlier in the year, recruitment delays led to an underspending. Most of these vacant posts have now been filled.
- **Supplies and Services – £526k underspending.** Budgetary provision for the investment front-office trading system, specifically property management functionality and additional user licences, didn't need to be fully utilised.
- **Other third-party payments – £147k underspending.** The provision for co-investment broken deal costs did not require to be called upon.
- **Support Costs – £285k underspending.** Contingency provision had been made in respect of full procurement of enhanced ICT provision. Formal procurement was initiated later than originally anticipated and therefore outlays were deferred. Appointment of an ICT provider is expected later in the financial year 2020/21.
- **Income – £322k under-recovery.** Budgeted income included anticipated receipts from collaborative partners for asset management services, following requisite FCA approval. This has been delayed until the 2020/21 financial year.

	Approved budget	Actual outturn	Variance
	£000	£000	£000
Employees	5,354	4,817	(537)
Transport and premises	255	289	(5)
Supplies and services	2,128	1,602	(526)
Investment managers fees*	24,900	24,437	463
Other third-party payments	1,439	1,292	(147)
Capital funding - depreciation	147	154	7
Direct Expenditure	**34,223**	**32,552**	**(1,671)**
Support costs	643	358	(285)
Income	(1,915)	(1,593)	322
Total net controllable cost to LPF	**32,951**	**31,317**	**(1,634)**

**Does not include performance element. In 2019/20, £2.9m was paid in fees in relation to the Fund's private market investments.*

FINANCIAL PERFORMANCE

Reconciliation to total costs	Actual outturn
	£000
Actual outturn on budgeted items above	31,317
Add: Securities lending revenue included in income above	577
Investment management fees deducted from capital – performance related element	2,999
IAS19 LPFE retirement benefits	(77)
LPFE deferred tax on retirement benefits	(31)
Corporation tax	(9)
Total cost to LPF (inclusive of full cost investment management fees)	**34,776**
Per fund accounts	
Lothian Pension Fund Group	34,697
Scottish Homes Pension Fund	79
Total	**34,776**

Cash-flow

Cash-flow 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 25 March 2020, 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.

FINANCIAL PERFORMANCE

LOTHIAN PENSION FUND

	2019/20 Projected	2019/20 Accruals basis	2019/20 Cash Basis
Income	**£000**	**£000**	**£000**
Contributions from Employers	194,000	184,818	189,125
Contributions from Employees	50,000	49,508	50,705
Transfers from Other Schemes	5,000	6,036	6,036
	249,000	**240,362**	**245,866**
Expenditure			
Pension Payments	(180,000)	(179,229)	(179,229)
Lump Sum Retirement Payments	(70,500)	(65,890)	(68,077)
Refunds to Members Leaving Service	(750)	(723)	(723)
Transfers to Other Schemes	(36,000)	(30,660)	(30,660)
Administrative expenses	(2,500)	(2,496)	(2,521)
	(289,750)	**(278,998)**	**(281,210)**
Net Additions/(Deductions) From Dealings with Members	**(40,750)**	**(38,636)**	**(35,344)**

LPF continued to experience a net reduction in value from our dealings with our members. This reduction increased by £24.1million in the year with outlays exceeding receipts by £38.6 million compared to £14.5million at 31 March 2019. It is worth highlighting that a majority of this increase was driven by the one off event of a bulk transfer of an employer, Barony Housing Association, to another scheme which accounted for £20.5million of the rise in outlays.

FINANCIAL PERFORMANCE

SCOTTISH HOMES PENSION FUND

	2019/20 Projected	2019/20 Accruals basis	2019/20 Cash Basis
Income	**£000**	**£000**	**£000**
Administration charge	80	70	70
Expenditure			
Pension Payments	(6,545)	(6,653)	(6,653)
Lump Sum Retirement Payments	(655)	(625)	(666)
Transfers to Other Schemes	(100)	-	-
Administrative expenses	(80)	(45)	(45)
	(7,380)	**(7,323)**	**(7,364)**
Net Additions/(Deductions) From Dealings with Members	**(7,300)**	**(7,253)**	**(7,294)**

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 £7.3million representing a £1.7million change in position from 31 March 2019 (net withdrawals of £5.6million). 2018/19 figures do include the transfer of Homeless Action Scotland from Lothian Pension Fund to Scottish Homes which accounts for the £1.7m difference. Future cash flows are expected to be broadly consistent with 2019/20 figure going forward.

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

FINANCIAL PERFORMANCE

2017 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 2017. In general, the results showed that despite better than expected asset returns since the 2014 actuarial valuation, employer costs increased due to a reduction in future expected investment returns. The Funding Strategy Statement was reviewed and amended following consultation with employers.

For Lothian Pension Fund, the funding level increased from 91% at 31 March 2014 to 98% at this valuation. The deficit decreased from £417million at 31 March 2014 to £145million at 31 March 2017. Reflecting the differences in the employers in the Fund, a third investment strategy was introduced for employers which are closed to new entrants, but not close to exiting the Fund.

Lothian Pension Fund also introduced a requirement for 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 2017 was 104.7%, increased from 88.8% from the 2014 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.

The next triennial valuation for both Funds will be undertaken as at 31 March 2020. Member data will be supplied to the Actuary during Summer 2020, with results reported later in the financial year 2020/21.

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

FINANCIAL PERFORMANCE

Scotland and the Scottish Local Government Pension Scheme Advisory Board (SLGPSAB), the Committee's and Convener'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".

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.

FINANCIAL PERFORMANCE

	Lothian Pension Fund		Scottish Homes Pension Fund	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Investment management expenses in compliance with CIPFA guidance	31,041	31,704	84	104
Investment management expenses per financial statements	36,102	32,659	84	104
Disclosure in excess of CIPFA guidance	5,061	955	0	0

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. This is the reason for the much lower disclosure in excess of CIPFA guidance in 2019/2020 (£955K), compared to the previous year (£5,061K). This trend is expected to continue for Lothian Pension Fund. Crucially, however, 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.

FINANCIAL PERFORMANCE

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 332 pension funds representing £7.2 trillion in assets. To provide a fair 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 2019) showed that LPF's investment costs of 0.39% of Fund assets were significantly lower than CEM's benchmark cost of 0.49%, an equivalent annual saving of approximately £7.0m. 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.

WHAT OUR MEMBERS SAY:

'I feel very privileged and fortunate to be a member.'

PERFORMANCE AND ADMINISTRATION

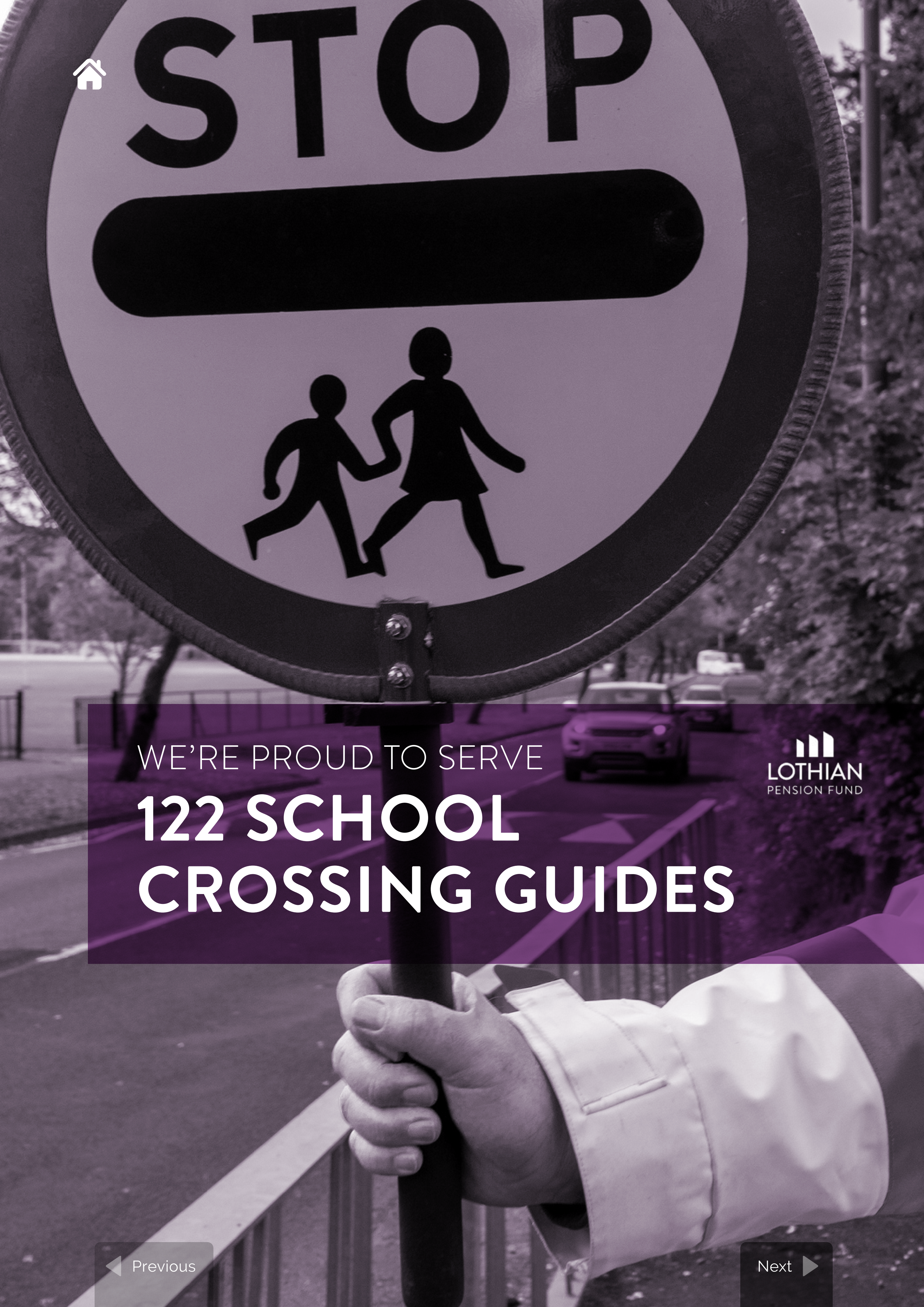
Key Performance Indicators 2019/20

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 focused 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.

2018/2019		Target	2019/2020
Retained	Maintain Customer Service Excellence Standard (CSE) (Annual assessment)	Retain	*outcome pending
Met	Audit of Annual Report and Accounts 2019/20	Unqualified opinion	Met
100%	Proportion of members receiving a benefit statement by August	100%	100%
92.7%	Overall satisfaction of employers, active members and pensioners measured by surveys	92%	96.0%
99.7%	Percentage by value of pension contributions received within 19 days of end of month to which they relate	99%	99.5%
Met	Investment performance and Risk of Lothian Pension Fund over a rolling five-year period	Meet benchmark	Not met
Met	Monthly pension payroll paid on time	Met	Met
3.9%	Level of sickness absence	4.0%	2.85%
100%	All colleagues complete at least two days training per year	Yes	100%
69%	Colleague engagement index	Greater than 70%	69%

** Due to the Coronavirus outbreak the assessment to be held in March 2020 was postponed and will take place as soon as circumstances allow.*



WE’RE PROUD TO SERVE

122 SCHOOL CROSSING GUIDES

LOTHIAN
PENSION FUND

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PERFORMANCE AND ADMINISTRATION

Value for Money

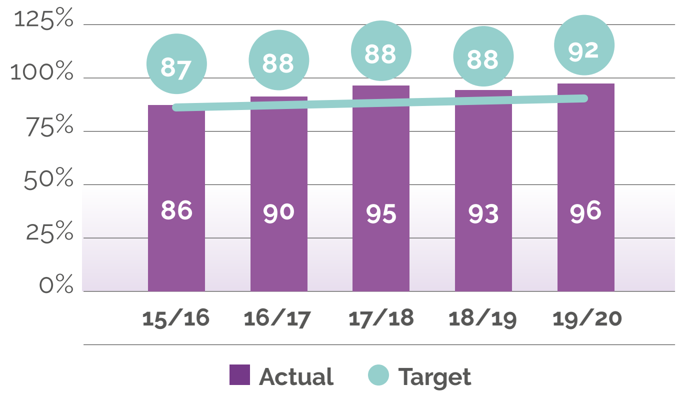
Value for Money is the term used to assess whether an organisation has obtained the maximum benefit from the services it acquires or provides, within the resources available to it. It has three components to take account of: economy, efficiency and effectiveness.

For several 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 of the investment and administrative teams to enhance customer satisfaction
- Sharing of information and ideas with peers
- A review of performance trends over time.

The outputs and analyses have served to supplement internal performance management

OVERALL SATISFACTION



PERFORMANCE AND ADMINISTRATION

information. However, the Chartered Institute of Public Finance and Accountancy (CIPFA) has stated that, to protect its commercial interests, its benchmarking reports "cannot be put in the public domain. It is for internal uses only within the authority . . . and for contacting and communicating with other members of the club." We're therefore unable to include full information on the results in the Annual Report.

A summary of the benchmarking, based on 2018/19 data as reported to Pensions Committee in December 2019, is below:

- Lothian Pension Fund's cost per member of £22.09 falls within the very wide range of local authority funds of c£13 to £48. However, the cost is higher than the average of all funds of £21.34
- The composition of a fund's membership impacts costs. Active members represent 39.4% of the Fund membership compared with an average of 32.7%, and pensioners represent 29.9% compared with 25.5%, which means that deferred members represent a lower proportion of membership (23.6%) than the typical fund (30.5%). As deferred members are less demanding on administration services, these factors would tend to increase pension administration and payroll workload and therefore cost
- The proportion of colleagues holding relevant pension administration qualifications is significantly higher than the average (more than double)
- In addition, the Fund's administration performance is above average for 10 of the 13 industry standard indicators in certain instances, by a considerable margin.

The Fund participated in the pension administration survey carried out by CEM for the first time in 2019 to gain further insight into pension administration cost and quality of service.

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 significantly larger size. CEM's benchmarking results categorised the Fund's pension administration service as "low cost; high service standard".

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 2019/20 remains above the 92% target at 96.0%.

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 17,782 processes in 2019/20 and there were very few complaints made, less than 0.01%. Complaints covered a broader range of issues including taking small pensions as a cash lump sum and the time it took to pay a Cash Equivalent Transfer Value to new pension providers.

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 2019/20, there were four stage 1 disputes for investigation. If a member remains dissatisfied with the Stage 1 decision, they have six months to take their appeal to Stage 2. In 2019/20, there was one Stage two dispute and one remaining from 2018/19, both of which are included in the statistics below.

Reason for dispute	Stage 1 outcome	Stage 2 outcome	On-going
Transfer of Employment Protection of Undertakings (TUPE) transfer/protected Normal Retirement Date (NRD)	1 not upheld – complaint rested with SPPA	1 upheld	0
Overpayment	1	1 not upheld	0
Awards, e.g. early payment of deferred pension on health grounds	3	3 not upheld	0

Further information about the IDRP and complaints procedure is available on our website at www.lpf.org.uk/aboutus.

PERFORMANCE AND ADMINISTRATION

Our data

We issued 100% of benefit statements by the statutory deadline of 31 August 2019. This is the second year in a row we've achieved this target set by the Pensions Regulator in 2015. Previous years saw us achieve 99%.

We measure our pension record keeping standards against the Pension 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 the Fund's employer data portal. The Fund audits the submissions to ensure the continuation of data accuracy.

The Fund utilises 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 Pension Regulator for the 2019 annual scheme return. Lothian Pension Fund and Scottish Homes Pension Fund scored 98.3% and 96.5% respectively for common data and 95.4% and 96.7% for conditional data. The quality of data continues to be considered to be of a high standard.

COLLEAGUE PROFILE **Steph Duddy, People Business Partner**

Steph joined LPF in September 2019 as our People Business Partner. Steph's responsible for providing guidance to drive the delivery of the HR and people plans, including recruiting and development for our colleagues. Steph says:

"The favourite aspect to my role is helping to develop our colleague give them the skills to deliver great service for our members. The people and culture are what makes LPF a great place to work."

PERFORMANCE AND ADMINISTRATION

Guaranteed Minimum Pension (GMP)

Following the end of contracting-out of the Second State Pension (S2P) on 5 April 2017, HMRC committed to sending a statement to all individuals affected stating the amount of Guaranteed Minimum Pension (GMP) they'll receive and who is responsible for paying it. As implied, GMP is the underpin that guarantees benefits will be no lower than the additional state pension, a member would have accrued had their pension not contracted out. As different levels of indexation are applied to the GMP element of a member's pension compared to the balance, any incorrectly calculated GMPs can result in over or underpayment of benefits. The UK Government's deadline for pension schemes to reconcile the GMP values they hold for members with those calculated by HMRC was 31 March 2019.

As reported previously, the Fund reconciled GMP values held for its members with those calculated by HMRC, to within the accepted tolerance of £2 per week, by the statutory deadline of 31 March 2019. In total,120 members were identified who had been underpaid GMP. This resulted in arrears of £37,597.90, which was paid in June 2019. Requisite increases to ongoing annual pensions totalled £4,028.

In respect of overpayments, the Local Government Pension Scheme (Increased Pension Entitlement) (Miscellaneous Amendments) (Scotland) Regulations 2019, provide that pensions currently in payment will remain unadjusted going forward. The Fund has calculated an annual total of such pension overpayment of £73,624.32, across 572 members' records, that is an average of £128.71 per member.

McCloud judgement

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.

The Scottish Government is considering what this means for the LGPS and a remedy is expected later this year. Protection will compare the benefits payable under the current rules with the entitlements which would have been paid if the Scheme had not changed in 2015 and pay the higher. This protection will apply automatically and members who meet the qualifying criteria won't need to take any action.

PERFORMANCE AND ADMINISTRATION

Many members benefits won't change or will only see a small increase because of low salary growth since the new scheme was introduced. However, as the changes will be backdated to April 2015 and apply to qualifying members who left the LGPS after that date, implementing the remedy is expected to be extremely challenging from an administration perspective.

Pension administration

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. Despite the challenging environment, 93.53% of key procedures in 2019/20 were completed in target. However, in other areas, some delays were experienced while this key work was prioritised.

The table below shows the number and type of retirements in 2019/20.

	Ill health	Early-age 60 to NPA	Early-age 55 to 59	Redundancy	Efficiency	Late	TOTAL
Lothian Pension Fund	118	907	140	115	61	165	**1506**
Scottish Homes Pension Fund	0	21	0	0	0	0	**21**

PERFORMANCE AND ADMINISTRATION

The table below shows performance against key procedures in 2019/20.

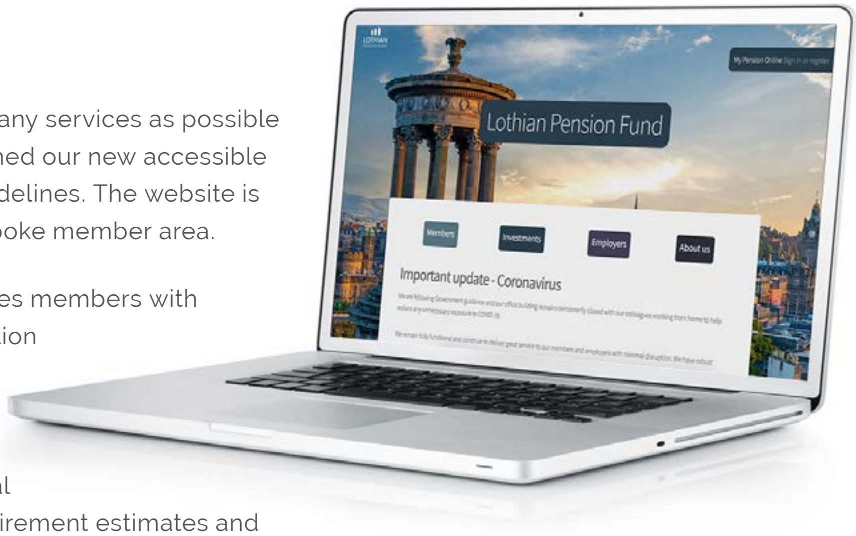
2018/19		Target	2019/20
92.2%	Proportion of critical pensions administration work completed within standards – individual performance within this indicator are shown below	Greater than 91%	93.53%
96.7%	Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	90%	97.64%
97.5%	Pay lump sum retirement grant within seven working days of receiving all the information we need from the member	95%	98.84%
97.2%	Acknowledge of the notification of the death of a member to next of kin within five working days.	95%	97.62%
100%	Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	95%	100%
81.7%	Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service.	90%	97.83%
73.6%	Proportion of non-key procedures completed within standard including Additional Regular Contributions, responding to member communications, updating nominations and maintaining the member database.	75%	75.18%
98.3%	Notification of dependant benefits within five working days of receiving all necessary paperwork	95%	92.81%
97.2%	Payment of CETV within 20 working days of receiving all completed transfer out forms	95%	94.75%
80.4%	Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider.	95%	64.21%
77.0%	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.	80%	77.29%
87.7%	Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form.	90%	89.25%
82.3%	Estimate requested by employer of retirement benefits within 10 working days	90%	82.63%
92.7%	Pay any lump sum death grant within seven working days of receipt of the appropriate documentation	95%	90.76%

PERFORMANCE AND ADMINISTRATION

We also participate in the National Fraud Initiative which is a data matching exercise led by Audit Scotland and is carried out every two years. The 2018/19 data match against current pensioners and deferred pensioners identified 31 and 13 deaths respectively, that hadn't been reported. The total overpayment for current pensioners amounted to £52,026 and recovery is in progress.

In 2019/20, the total value of pension overpayments written off under delegated authority (overpayments up to £3,000) between 1 September 2018 – 31 August 2019 was £7,888.

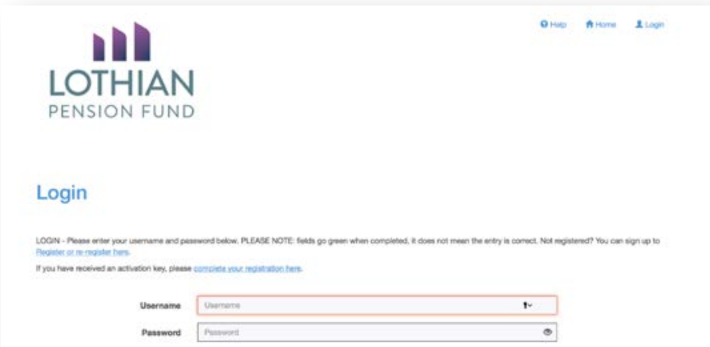
Online services



LPF is moving towards providing as many services as possible digitally. In December 2019, we launched our new accessible website to meet new Government guidelines. The website is clear and easy to navigate with a bespoke member area.

The My Pension Online service provides members with easy access to their personal information and we continue to investigate ways to improve the customer experience and services for our members. Enhancements to our digital service have allowed us to provide retirement estimates and member documentation online, enable secure upload of documents to the Fund and completion of forms online.

We recently changed our refund process so now members can view, complete and return the forms and documents securely, all within our digital service.



We also introduced online payslips and P60s for all our members. 8,427 members (26.3% of existing pensioners) who were signed up to the digital service at the end of February no longer receive paper copies of their payslips or P60s.

All new pensioner members are automatically designated to receive electronic payslips and P60s, but they'll be given the option to retain paper service if that's their preference. We'll issue further communications to persuade existing pensioners to sign up to the online service.

PERFORMANCE AND ADMINISTRATION

Information for members is also available via email, phone and in person by visiting our office. We currently have 30,000 members registered for the online service with 44% of all active members being registered and we're continuing to work to increase these numbers.

Our employers provide monthly contribution returns via a portal that allows data to be automatically uploaded to the pension software system. This has significantly improved the provision of employer data and allowed for the automation of tasks that were previously done manually.

Unclaimed Monies Account

When a member leaves the Fund with less than two years membership they're entitled to a refund or transfer to another pension provider. Where we don't receive a response to any of our correspondence, we record these as 'Status 3: Exit – No liability' with a marker as unclaimed. At 1 April 2019 the unclaimed amount was £909,056 with 2,527 records with the unclaimed marker and on 1 April 2020 the figure was £914,306 with 2,571 unclaimed records.

Over the year we wrote to over 1,200 members reminding them of their options and we'll continue this work over the next 12 months by sending a reminder letter to those that haven't replied.

Although the unclaimed members and monies remain around the same level, new members who don't reply become unclaimed.

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.

PERFORMANCE AND ADMINISTRATION

Since the strategy was introduced, provision of early leaver and retiral information from employers has been well below the expected standard. This is despite our LPF officers taking a variety of approaches to improve employer performance, including:

- Providing training to payroll/HR colleagues
- Presenting performance updates at employer seminars and user groups
- Escalating to senior officers at annual employer meetings
- More frequent meetings and monitoring with employers where performance has been particularly poor.

To improve service to members, indirect costs can now be recovered from an employer should there be any persistent and ongoing administration failure occurs, with no improvement demonstrated or unwillingness to resolve the identified issues.

The Fund monitors employer performance against the standards set out in the Pension Administration Strategy. Results are reported to employers by way of an annual performance report, with more regular reporting for larger employers.

Overall employer performance for 2019/20 is shown below, with 2018/19 shown for comparison purposes.

		2018/19			2019/20		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New members	20	4,379	N/A	N/A	7,489	4,554	61%
Leavers	20	3,628	1,715	47%	3,632	1,450	40%
Retirements	20	1,249	488	39%	1,374	512	37%
Deaths in Service	10	11	7	64%	16	10	63%

PERFORMANCE AND ADMINISTRATION

Reconciliation of data in Q1 affected the performance indicator for new starters significantly. The performance of our largest employers improved from Q2 onwards.

Whilst the provision of leaver information within target has decreased and the majority were received out of target, a huge amount of effort this year has gone into targeting historical cases. We continue to provide missing leaver queries to employers monthly and are confident that employers can focus on 'business as usual' cases in 2020/21.

Most retirement information continued to be provided out of target. 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 50% are received after the member's retirement date.

Employer	Number of late payments	Employer	Number of late payments
Scotland's Learning Partnership	5	Bellrock	1
Freespace Housing	3	Citadel Youth Centre	1
Visit Scotland	3	Hanover Housing Association	1
Granton Info Centre	3	Heriot Watt University	1
Edinburgh Cyrenians Trust	2	Pilton Equalities Project	1
Enjoy East Lothian	2	West Lothian College	1
Four Square	1	Edinburgh Festival Society	1
Edinburgh Development Group	1		
TOTAL			**27**

99.74% of contributions by value were paid on time. Of the 976 payments made, 27 were paid later than the 19th and these are shown in the table. The option to levy interest on overdue contributions was not exercised in 2019/20 as late contributions weren't received significantly later than the 19th.

PERFORMANCE AND ADMINISTRATION

Scotland's Learning Partnership

On 26 April 2019, the Scottish Public Pensions Agency (SPPA) advised that "Ministers have agreed that Scottish Government will provide a guarantee in respect of the liabilities for the staff from the former Community Learning Scotland who transferred to the Local Government Pension Scheme". This guarantee was signed on 3 June 2019.

Following the guarantee, Scotland's Learning Partnership received an updated valuation result with amended contribution rates and has agreed to settle an outstanding secondary rate payment by March 2022 via instalments. Whilst this means that the Fund hasn't yet received the minimum contributions in full, as certified by the Fund Actuary, the level of outstanding secondary rate contributions is not deemed significant and the Fund isn't exposed to default risk, given the guarantee by the Scottish Government. We have advised the Scottish Public Pensions Agency of the position.

WHAT OUR MEMBERS SAY:

'I can absolutely say that the Lothian Pension Fund has changed our lives for the better. We're now in a brand new home and we're very comfortably off. It was without doubt the best decision I made when I joined this fund in 1982'

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.

This year we were delighted to reach number 68 in the Sunday Times Top 100 Not for Profit Companies 2020 and number 38 in the Best Companies to work for in Scotland.

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:

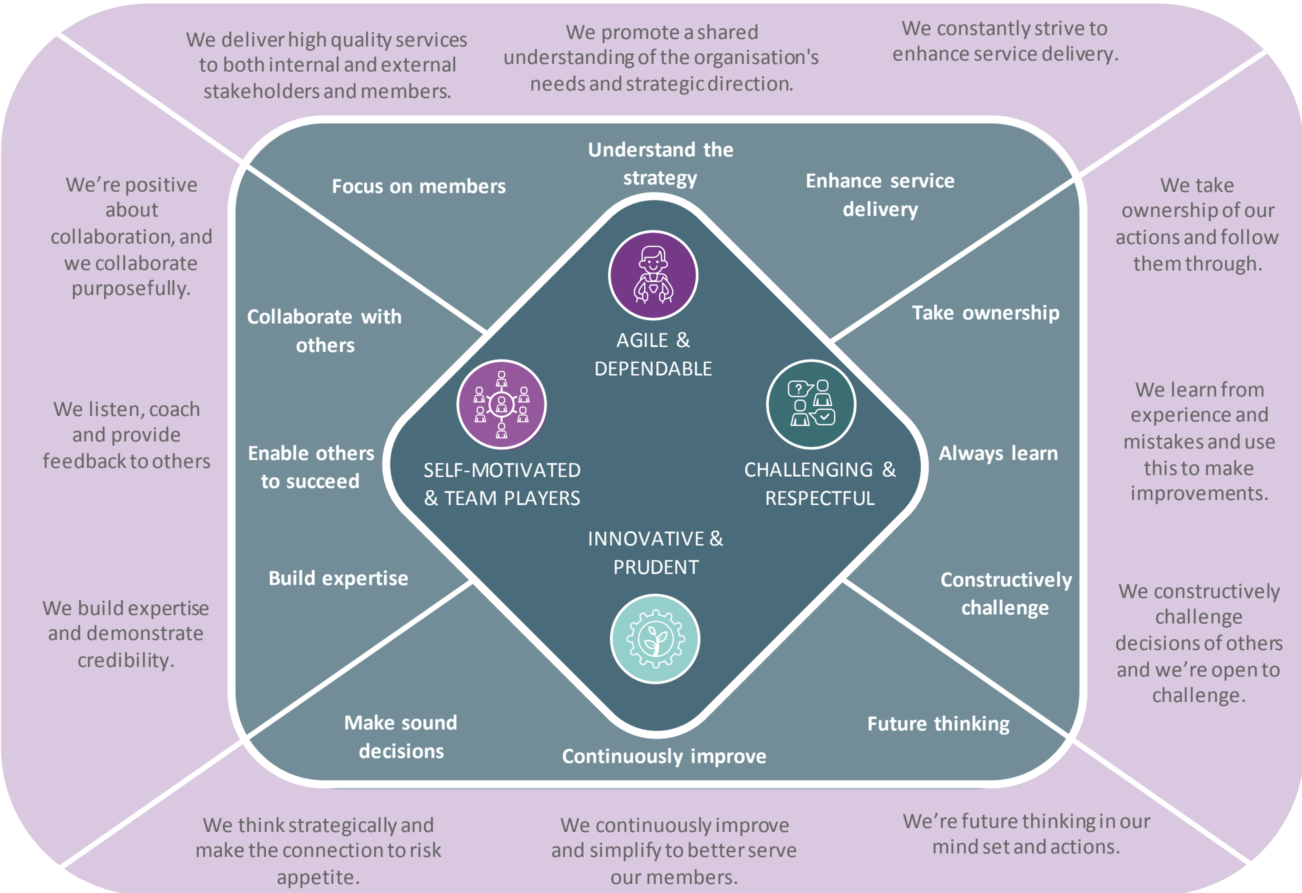
- Agile and dependable
- We approach work with an open and flexible attitude and take responsibility to manage our work effectively and efficiently. We also embrace new processes in a consistent and reliable way.
- Self-motivated and team players
- We actively participate as individuals, taking pride 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.

Inclusivity

We're one team, but we represent many ideas, experiences and backgrounds. We value everyone's contributions and believe that everyone 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 December 2019 our permanent headcount was 68; 53% female 47% 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:

OUR COLLEAGUES



- 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 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 focused on increasing diversity and inclusion in the asset management, professional services and financial services industries
- We helped launch 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

WE'RE PROUD TO SERVE

558 SOCIAL WORKERS

LOTHIAN PENSION FUND

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OUR COLLEAGUES

Gender Balanced

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

- As at 31 December 2019 we have, on aggregate, 35% women in our top three leadership layers. Over the year, we've increased our female management roles by three which equates to 33% women in our top three leadership layers
- Our mean gender pay gap is 36.15% (median: 4.33%) and the mean bonus pay gap is 43% (median 21%)
- 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. We're confident this approach is the right one and through time, it will help us achieve a better balance of diversity throughout the organisation. Between August and December 2019, we recruited seven colleagues, 57% of these were women, and all of these colleagues were recruited above median pay.

Performance and Reward

Our approach to performance management provides clarity for our employees about how their contribution links to our ambition and all our employees have goals set across a balanced scorecard of measures. We continue to ensure colleagues are paid fairly for the work they do and are supported by simple and transparent pay structures in line with industry best practices. We keep our HR policies and processes under review to ensure we do so.

This clarity and certainty on how we pay is also helping to improve our employees' financial wellbeing. Our rates of pay continue to exceed the Living Wage and we ensure employees performing the same roles are paid fairly. We make sure that colleagues have a common awareness of the financial and economic factors affecting LPF's performance through quarterly 'your FORUM' events led by our Group Chief Executive Officer and Senior Leadership Team. More information on our remuneration policies and employee share plans can be found later in this document.

OUR COLLEAGUES

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.

Professional standards are important to us and we offer a wide range of learning to support professional development. We work closely with a wide range of professional bodies, government agencies and our peers to maintain and grow professional standards across the industry.

Investing in Colleagues

We've also transformed our colleagues' experience by deploying new digital tools. Bamboo HR was implemented as a new digital HR platform in August 2019, and includes a mobile app, giving colleagues an experience on par with the digital experience our customers enjoy.

Health and Wellbeing

We firmly believe that colleague wellbeing is linked to a successful and happy workforce. We partner with a community enterprise initiative to source fruit baskets and make these available to colleagues to encourage healthy eating. 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' mental health very seriously and support mental health and wellbeing initiatives including Time to Talk Day, Purple Tuesday and we work with Enable to ensure that colleagues have the support, confidence and trust they need to talk about any concerns they may have.

Management commentary approved by:

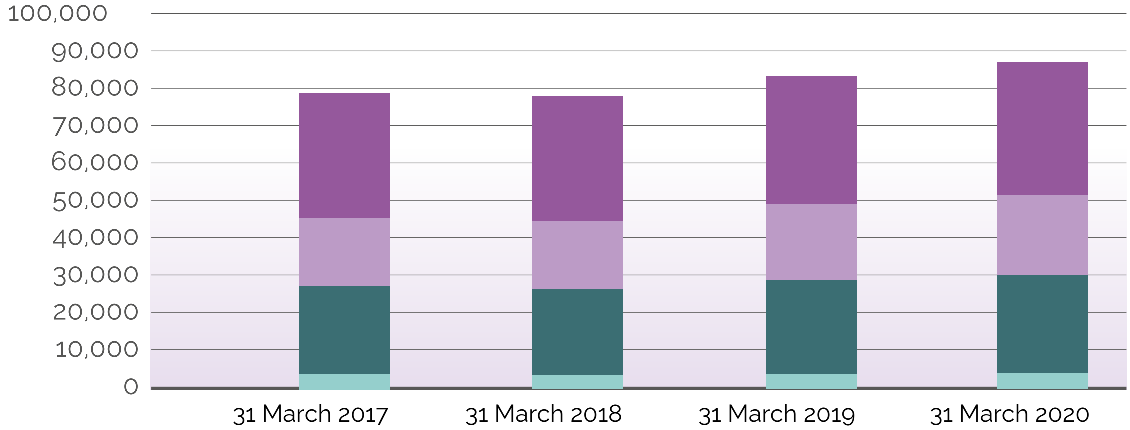
Andrew Kerr
Chief Executive Officer
The City of Edinburgh Council
29 September 2020

Doug Heron
Chief Executive Officer
Lothian Pension Fund
29 September 2020

John Burns
Chief Finance Officer
Lothian Pension Fund
29 September 2020

LOTHIAN PENSION FUND INVESTMENT STRATEGY

LOTHIAN PENSION FUND MEMBERSHIP



Active	33,526	33,528	34,569	35,655
Deferred	18,381	18,384	20,269	21,406
Pensioners	23,595	23,119	25,295	26,668
Dependants	4,202	3,825	4,168	4,172
Total	79,704	78,856	84,301	87,921

Homeless Action Scotland (HAS) ceased its membership of LPF with effect from 12 July 2018 and, following Ministerial Direction, its members transferred into the Scottish Homes Pension Fund. At the point of transfer, HAS had eleven deferred members, four pensioner members and one dependant member. The figures for 2019 have been adjusted to show this reduction. Further information on the transfer is shown in the Scottish Homes account section.

Investment Strategy

In order to provide suitable investment strategies for the differing requirements of employers, the Fund currently operates four investment strategies. Most employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and minimise the cost to the employer. The investment strategy is set at broad asset class or policy group levels, which are the key determinants of risk and return. These policy groups consist of Equities, Other Real Assets, Non-Gilt Debt, Gilts and Cash.

The Fund's (Main) investment strategy was approved by the Pensions Committee in December 2018. This adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer. The strategy retains significant exposure to real investments, such as Equities and Infrastructure,

LOTHIAN PENSION FUND INVESTMENT STRATEGY

which have a history of protecting or enhancing purchasing power over the long term.

A small number of employers are funded in the Mature Employer Strategy, which invests in a portfolio of UK index-linked and nominal 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 1% 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 Employers Strategy. The liabilities funded by the 50/50 strategy represent a further 1% of total liabilities.

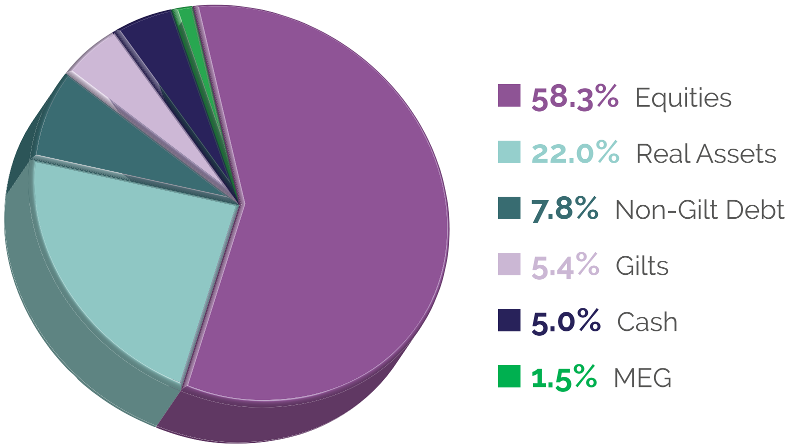
The Buses Strategy was introduced on 31 January 2019 when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund. In June 2019, the Committee agreed that the Buses Strategy should be adjusted in line with the investment strategy that it had previously approved for the Lothian Buses Pension Fund. With a maturing liability profile, the strategy reduced the risk / return profile of the assets over a five-year period. As the estimated funding level improved more quickly than expected, risk reduction was achieved during 2019/20 by reducing the equity allocation from 51.5% to 35% and increasing the allocation to gilts and non-gilt debt.

The table below presents total fund strategy, which is the weighted average of the four employer strategies also shown.

LOTHIAN PENSION FUND 31 March 2020	Main strategy	Mature Employer strategy	50/50 strategy	Buses strategy	Total fund strategy
Equities	65.0%	0.0%	32.5%	35.0%	62.0%
Real Assets	18.0%	0.0%	9.0%	18.0%	17.7%
Non-Gilt Debt	10.0%	0.0%	5.0%	20.0%	10.5%
Gilts	7.0%	100.0%	53.5%	27.0%	9.8%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

LOTHIAN PENSION FUND INVESTMENT STRATEGY

ACTUAL ASSET ALLOCATION TOTAL FUND STRATEGY 31 MARCH 2020



A key objective of the Fund's investment strategy is to avoid unrewarded risk, and significant steps were taken more than six years ago to achieve this. The current equity strategy evolved by shifting from a regional to a global manager structure with a significant proportion of assets managed internally. The intention was to create relative stability appropriate to a long-term pension fund. The current equity investment strategy has remained broadly unchanged for several years now. With the structure of the equity exposure in more of a 'steady-state', there were no major changes over 2019/20.

Almost 85% of the Fund's listed equities are managed internally, with the majority of this in low cost, low turnover strategies which are expected to enhance the Fund's risk-adjusted returns over the long-term. The Fund also hedges exposure to the currencies of overseas listed equities with the explicit aim of reducing volatility rather than seeking to generate improved returns. The Fund therefore maintains exposure to currencies that are expected to reduce volatility, such as the US Dollar and Japanese Yen which tend to fall as equities rise, and hedge exposure to currencies that are expected to increase volatility, such as the Australian Dollar, which tends to rise as equities rise.

Over recent years, the Fund's strategy has been to increase the actual allocation to the Real Asset policy group, which includes investments in property, infrastructure and timber funds and assets. The long term and defensive nature of most of these assets provides an element of diversification to the overall investment strategy and the objective is to provide attractive risk-adjusted returns that are expected to be somewhat lower than listed equities over the long term. Most of these investments are unlisted and increasing exposure is dependent on sourcing attractive opportunities. The Fund's longstanding commitment to infrastructure investing has resulted in a large and diverse portfolio of real assets. The Fund's actual allocation has increased slightly this year from 20% to 22%. Almost 60% of this exposure is invested in infrastructure and approximately one third is investment in property. A small team of property professionals was recruited over 2019/20 to manage the commercial real estate portfolio, including both direct UK properties and indirect property investments.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

The Non-Gilt Debt allocation has been increasing in recent years as the Fund strives to improve diversification and secure returns in excess of gilt yields. The actual allocation was increased gradually over 2019/20 from 5.2% to 7.8% with additional commitments to private debt as well as the drawdown of existing commitments and new investments in investment grade corporate bonds. Given very low sovereign bond yields and historically low spreads in credit markets, the Fund remains below the long-term strategic allocation.

The Fund's allocation to Gilts declined over the year, from 9% to 7%, which is below the long-term strategy target of 10%. The risk associated with index-linked gilts was raised by the UK government plans to align RPI with CPI between 2025 and 2030 – this would have a meaningful detrimental impact on future returns, which are already negative in real terms and expensive in an international context – yields are relatively low and inflation expectations relatively high. The Fund retains exposure as index-linked gilts do provide diversification, some insurance against an unexpected rise in inflation and a return broadly in line with the Fund's liabilities.

Investment performance

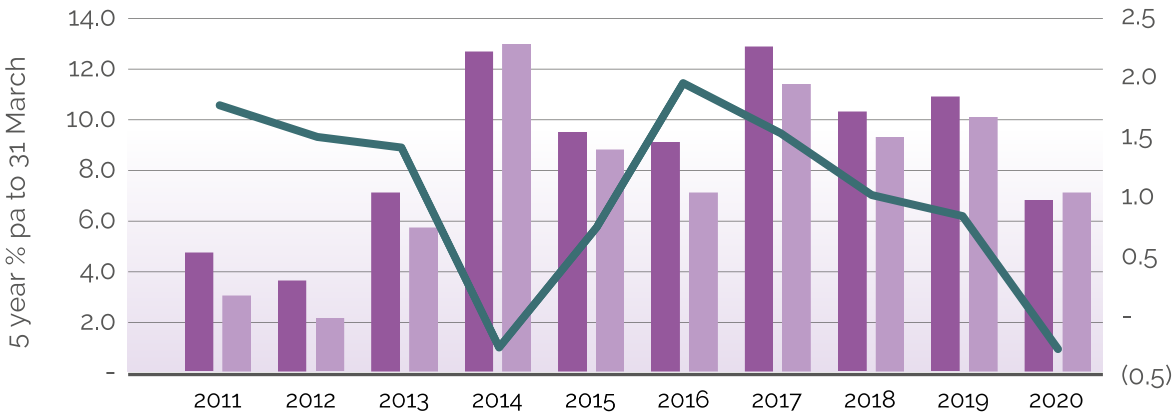
The Fund's performance over the last year and over longer-term timeframes is shown in the table below.

Annualised returns to 31 March 2020 (% per year)	1 year	5 years	10 years
Lothian Pension Fund	-3.6	6.8	8.1
Benchmark*	-0.2	7.1	7.9
Average Weekly Earnings (AWE)	1.5	2.4	2.0
Consumer Price Index (CPI)	1.5	1.7	2.0

**Comprises equity, 'gilts plus', gilts and cash indices*

LOTHIAN PENSION FUND INVESTMENT STRATEGY

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



Fund	4.7	3.6	7.1	12.7	9.5	9.1	12.9	10.3	10.9	6.8
Benchmark	3.0	2.1	5.7	13.0	8.8	7.1	11.4	9.3	10.1	7.1
RHS	1.7	1.5	1.4	-0.3	0.7	1.9	1.5	1.0	0.8	-0.3

The investment objectives of the Fund 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. 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. The 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.

The Fund return was relatively weak over the past year but remains broadly in line with its objective of meeting the strategic benchmark return over five and ten-year periods with lower risk. It should be noted that the Fund is not expected to behave like the benchmark in the short term for two main reasons: portfolios are not constructed to track the market capitalisation benchmarks and private market benchmarks are not readily available nor assets well suited to short term measurement. UK CPI and Average Weekly Earnings have grown at low and relatively stable rates for many years, although liability values have grown faster than asset values as interest rates have almost reached zero.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

The Fund's focus on risk-adjusted returns and lower volatility has been broadly in place since 2013 involving a change in structure that included a greater focus on lower volatility equities. One way of assessing the success of the strategy is by measuring the direction of the Fund's performance when markets are increasing and decreasing. Over the period since the change in structure, the Fund's returns have been delivered with lower volatility than the benchmark.

From March 2015 to March 2020, the Fund performed:

- better than the strategic allocation when markets fell (19 out of 60 months) with average performance of 0.3% better than the strategic benchmark and,
- worse than the strategic allocation when markets were rising (41 out of 60 months) with average performance 0.2% behind the strategic benchmark demonstrating that the Fund is positioned relatively defensively, in line with strategy.

The Fund's independent performance measurement provider, Portfolio Evaluation, also reports that the Fund's annualised ex-post active risk has been lower than the strategic benchmark over the most recent five-year (7.3% vs. 8.0%) and ten-year (7.3% vs. 7.7%) periods.

COLLEAGUE PROFILE **Ruth Hunter, Investment Administrator**

Our investment Administrator Ruth has been with LPF for eight years. Ruth provides administrative support for the Investment team which is a varied role and includes co-ordinating the Fund's investment reporting cycle, preparing reporting data and co-ordinating data between our collaborating partners. Ruth says:

"The LPF team are all great to work with and I really enjoy the challenges of my role and the direction the Fund is moving in."

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166 WASTE OPERATIVES

LOTHIAN PENSION FUND

LOTHIAN PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH

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
Restated 2018/19	Restated 2018/19			2019/20	2019/20
£000	£000		Note	£000	£000
		Income			
175,672	175,672	Contributions from employers	5	184,818	184,818
47,416	47,416	Contributions from members	6	49,508	49,508
3,852	3,852	Transfers from other schemes	7	6,036	6,036
226,940	**226,940**			**240,362**	**240,362**
		Less: expenditure			
167,962	167,962	Pension payments including increases	8	179,229	179,229
50,270	50,270	Lump sum retirement payments	9	58,809	58,809
5,542	5,542	Lump sum death benefits	10	7,081	7,081
720	720	Refunds to members leaving service		722	722
(82)	(82)	Premiums to State Scheme		1	1
14,754	14,754	Transfers to other schemes	11	30,660	30,660
2,281	2,530	Administrative expenses	12a	2,496	2,467
241,447	**241,696**			**278,998**	**278,969**
(14,507)	**(14,756)**	**Net (withdrawals)/additions from dealing with members**		**(38,636)**	**(38,607)**
		Returns on investments			
190,975	190,975	Investment income	13	232,842	232,842
503,624	503,624	Change in market value of investments	15, 20b	(500,724)	(500,724)
(35,938)	(36,102)	Investment management expenses	12b	(32,398)	(32,230)
658,661	**658,497**	**Net returns on investments**		**(300,280)**	**(300,112)**
644,154	**643,741**	**Net increase in the Fund during the year**		**(338,916)**	**(338,719)**
7,175,080	**7,173,722**	**Net assets of the Fund at 1 April 2019**		**7,819,234**	**7,817,463**
7,819,234	**7,817,463**	**Net assets of the Fund at 31 March 2020**		**7,480,318**	**7,478,744**

LOTHIAN PENSION FUND NET ASSETS AS AT 31 MARCH 2020

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

Lothian Pension Fund Parent 31 March 2019 £000	Lothian Pension Fund Group 31 March 2019 £000		Note	Lothian Pension Fund Parent 31 March 2020 £000	Lothian Pension Fund Group 31 March 2020 £000
		Investments			
7,788,872	7,788,872	Assets		7,444,652	7,444,652
(1,912)	(1,912)	Liabilities		(1,965)	(1,965)
7,786,960	**7,786,960**	**Net investment assets**	**14**	**7,442,687**	**7,442,687**
		Non current assets			
3,457	3,457	Debtors	24	5,256	5,256
430	430	Computer systems		658	658
60	-	Share Capital		590	-
-	393	Deferred tax	29a	-	424
3,947	**4,280**			**6,504**	**6,338**
		Current assets			
884	884	The City of Edinburgh Council	28	4,924	4,924
35,897	36,238	Cash balances	21, 28	38,168	39,038
22,345	22,568	Debtors	25	18,118	18,447
59,126	**59,690**			**61,210**	**62,409**
		Non current liabilities			
-	(2,309)	Retirement benefit obligation	30	-	(2,232)
-	(13)	Creditors		-	(15)
-	**(2,322)**			**-**	**(2,247)**
		Current liabilities			
(30,799)	(31,145)	Creditors	26	(30,083)	(30,443)
(30,799)	**(31,145)**			**(30,083)**	**(30,443)**
7,819,234	**7,817,463**	**Net assets for the Fund**		**7,480,318**	**7,478,744**

LOTHIAN PENSION FUND ACCOUNTS

The unaudited accounts were issued on 24 June 2020 and the audited accounts were authorised for issue on 29 September 2020.

John Burns FCMA CGMA, PgC
Chief Finance Officer,
Lothian Pension Fund

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 both Funds can be found on page 157.

2 Prior Year Adjustment

Ministerial Direction – Homeless Action Scotland

The admission to Local Government Pension (LGPS) membership of Homeless Action Scotland (HAS) was terminated by Lothian Pension Fund (LPF) with effect from 12 July 2018. The Actuary to LPF calculated the liabilities that remained on cessation at £641,000. Following specific request by LPF, on 31 March 2020, the Scottish Ministers issued a direction to the effect that: "

(a) Scottish Homes Pension Fund (SHPF) be substituted for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and that all assets and liabilities of Lothian Pension Fund relating to the Scheme employer are transferred to SHPF as at that date;

(b) with effect from 11 July 2018, City of Edinburgh Council, as the administering authority of SHPF, shall admit the Scheme employer as an admission body of SHPF; and

(c) the administering authority must by 30 June 2020 execute all documents and do all things necessary to complete the substitution of SHPF for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and the transfer of all assets and liabilities of Lothian Pension Fund relating to the Scheme employer to SHPF as at that date.

	2018/19 Audited	Adjustment	2018/19 Restated
	£000	£000	£000
Transfers to other schemes	13,028	1,726	14,754
Pension Payments	167,997	(35)	167,962
Administrative Expenses	2,532	(2)	2,530
Change in Market Value of Investments	503,734	(110)	503,624
Investment Assets	7,790,671	(1,799)	7,788,872

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

3 Lothian Pension Fund Group

Basis of consolidation, presentation of financial statements and notes

The consolidation of the group accounts was prepared prior to the LPFE and LPFI boards approval of their respective audited financial statements for 2019/20. The figures used in the consolidation are therefore the unaudited financial statements.

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.

Prior to the consolidation of the audited group accounts, the LPFE and LPFI boards met on 26 June 2020 and 16 June 2020 respectively, to approve their respective audited financial statements for 2019/20. The figures used in the consolidation are from these audited financial statements.

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4 Events after the Reporting Date

There have been no events since 31 March 2020, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

5 Contributions from employers

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

	2018/19	2019/20
By category	**£000**	**£000**
Primary Contribution (future service)	160,778	170,896
Secondary Contribution (past service deficit)	8,057	7,821
Strain costs	4,082	2,931
Cessation contributions	2,755	3,170
	175,672	**184,818**

	2018/19	2019/20
By employer type	**£000**	**£000**
Administering Authority	59,830	64,051
Other Scheduled Bodies	92,644	96,189
Community Admission Bodies	22,414	23,402
Transferee Admission Bodies	784	1,176
	175,672	**184,818**

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 and;
- 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.

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

2018/19 contributions included a £107k accrual covering revised sums in respect of assumed pensionable pay due by City of Edinburgh Council in relation to the financial period 2015/16 to 2017/18. These payments were transferred to the Fund in the first quarter of 2019/20, however there may still be revisions to these figures that are yet to be monetised due to back dated pay awards.

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

6 Contributions from members

	2018/19	2019/20
By employer type	**£000**	**£000**
Administering Authority	16,437	17,508
Other Scheduled Bodies	24,507	25,295
Community Admission Bodies	6,217	6,375
Transferee Admission Bodies	255	330
	47,416	**49,508**

7 Transfers in from other pension schemes

	2018/19	2019/20
	£000	**£000**
Group transfers	-	-
Individual transfers	3,852	6,036
	3,852	**6,036**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

8 Pensions payable

By employer type	2018/19 restated £000	2019/20 £000
Administering Authority	76,932	80,152
Other Scheduled Bodies	75,860	82,455
Community Admission Bodies	14,958	16,383
Transferee Admission Bodies	212	239
	167,962	**179,229**

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. In order that such are not regarded as "unauthorised payments" by HMRC, these pension payments are met by the administering authority through a general fund bank account and recharged to the body or service which granted the benefits.

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.

The Fund has requested that responsibility for these "unfunded transfer payments" should transfer to the Scottish Public Pension's Agency (SPPA). A response from SPPA is awaited.

9 Lump sum retirement benefits payable

By employer type	2018/19 £000	2019/20 £000
Administering Authority	17,374	19,335
Other Scheduled Bodies	27,818	31,809
Community Admission Bodies	5,053	7,420
Transferee Admission Bodies	25	245
	50,270	**58,809**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Lump sum death benefits payable

	2018/19	2019/20
By employer type	**£000**	**£000**
Administering Authority	2,943	2,874
Other Scheduled Bodies	2,049	2,497
Community Admission Bodies	550	1,635
Transferee Admission Bodies	-	75
	5,542	**7,081**

11 Transfers out to other pension schemes

	2018/19 restated	2019/20
	£000	**£000**
Group transfers	1,726	20,504
Individual transfers	13,028	10,156
	14,754	**30,660**

Following a Direction from the Scottish Ministers, Barony Housing Association transferred to Strathclyde Pension Fund on 31 January 2020.

The data transfer was successfully carried out to allow payment of pensions from February 2020 onwards. The Actuary calculated the Bulk transfer amount to be £20,504,175 based on asset values at the transfer date and this sum was paid to Strathclyde Pension Fund on 24 March 2020. In summer 2020, once the actual investment returns for the period to the payment date are known, a post payment date adjustment will be calculated by the Actuary. If the resulting Bulk Transfer Value is higher than the amount paid on the Payment Date, Lothian Pension Fund will make a top up payment to the Strathclyde Pension Fund equal to the difference, or if the reverse should be the case, then Strathclyde Pension Fund will be required to make a corrective payment to the Lothian Pension Fund equal to the difference.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12a Administrative expenses

	LPF Parent 2018/19	LPF Group 2018/19	LPF Parent 2019/20	LPF Group 2019/20
	£000	£000	£000	£000
Employee Costs	1,494	1,540	1,501	1,484
System costs	304	305	417	419
Actuarial fees	72	72	103	103
External/Internal audit fees	49	52	69	71
Legal fees	20	20	12	12
Printing and postage	111	111	152	152
Depreciation	45	45	34	34
Office costs	100	100	116	116
Sundry costs less sundry income	86	72	92	115
IAS19 retirement benefit adjustments - see note 30	-	249	-	(25)
Deferred tax on retirement benefit obligation - see note 29a	-	(42)	-	(10)
Corporation tax	-	6	-	(4)
	2,281	**2,530**	**2,496**	**2,467**

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.

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

12b Investment management expenses

	LPF Parent 2018/19	LPF Group 2018/19	LPF Parent 2019/20	LPF Group 2019/20
	£000	£000	£000	£000
External management fees -				
invoiced	4,977	4,977	4,423	4,423
deducted from capital (direct investment)	17,657	17,657	16,343	16,343
deducted from capital (indirect investment)	5,062	5,062	955	955
Securities lending fees	189	189	115	115
Transaction costs - Equities	1,498	1,498	2,479	2,479
Property operational costs	2,615	2,615	3,121	3,121
Employee costs	2,075	2,165	2,560	3,251
Custody fees	356	356	390	390
Engagement and voting fees	114	114	119	119
Performance measurement fees	92	92	94	94
Consultancy fees	125	125	71	71
Research fees	329	329	462	462
System costs	441	442	555	559
Legal fees	134	137	201	267
Depreciation	16	16	118	118
Office costs	76	76	127	127
Sundry costs less sundry income	182	(57)	265	(586)
IAS19 retirement benefit adjustments - see note 30	-	345	-	(52)
Deferred tax on retirement benefit obligation - see note 29	-	(59)	-	(21)
Corporation tax	-	23	-	(5)
Corporation tax losses utilised by CEC group	-	-	-	
	35,938	36,102	32,398	32,230

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

Investment costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three 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 £3.0m (£2.9m direct, £0.1m indirect) in respect of performance-related fees compared to £8.5m in 2018/19 (£6.1m direct, £2.4m indirect).

It should be noted that Lothian Pension Fund's disclosure on investment management fees exceeds CIPFA's Accounting for Local Government Pension Scheme Management Costs revised guidance on cost transparency which came into effect from 1st 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 £1m in costs (2019 £5.1m).

12c Total management expenses

	LPF Parent 2018/19	LPF Group 2018/19	LPF Parent 2019/20	LPF Group 2019/20
	£000	£000	£000	£000
Administrative costs	1,986	2,174	2,255	2,251
Investment management expenses	34,422	34,629	29,974	29,699
Oversight and governance costs	1,811	1,829	2,665	2,747
	38,219	**38,632**	**34,894**	**34,697**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

13 Investment income

	2018/19	2019/20
	£000	£000
Income from bonds	4,483	3,526
Dividends from equities	159,953	163,388
Unquoted private equity and infrastructure	5,005	40,419
Income from pooled investment vehicles	2,432	3,134
Gross rents from properties	23,501	23,914
Interest on cash deposits	2,156	2,213
Stock lending and sundries	943	577
	198,473	**237,171**
Irrecoverable withholding tax	(7,498)	(4,329)
	190,975	**232,842**

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 is assumed that the Fund will make full recovery of these reclaims. For the period of 2019/20 £7,673k of the stated income relates to tax yet to be received. At the 31st March 2020 £14,900k (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.

14 Net investment assets

	Region	Restated 31 March 2019	31 March 2020
Investment assets		£000	£000
Bonds			
Public sector fixed interest	UK	158,219	-
Public sector index linked gilts quoted	UK	695,412	457, 536
		853,631	**457,536**
Equities			
Quoted	UK	641,038	569,679
Quoted	Overseas	3,918,803	3,627,410
		4,559,841	**4,197,089**
Pooled investment vehicles			
Private equity, infrastructure, private debt & timber	UK	616,556	705,173
Private equity, infrastructure, private debt & timber	Overseas	633,487	690,020
Property	UK	90,358	86,954
Other	UK	31,978	174,366
		1,372,379	**1,656,513**
Properties			
Direct property	UK	411,978	367,494
		411,978	**367,494**
Derivatives			
Derivatives - forward foreign exchange		3,025	15,228
		3,025	**15,228**
Cash deposits			
Deposits		569,190	681,472
		569,190	**681,472**
Other investment assets			
Due from broker		1,037	44,128
Dividends and other income due		17,791	25,176
		18,828	**69,304**
Total investment assets		**7,788,872**	**7,444,636**
investment liabilities			
Derivatives			
Derivatives - forward foreign exchange		(854)	(22)
		(854)	**(22)**
Other financial liabilities			
Due to broker		(1,058)	(1,927)
		(1,058)	(1,927)
Total investment liabilities		**(1,912)**	**(1,949)**
Net investment assets		**7,786,960**	**7,442,687**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

15a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2019*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2020*
	£000	£000	£000	£000	£000
Bonds	853,631	338,698	(777,727)	42,934	457,536
Equities	4,559,841	1,638,264	(1,372,045)	(628,971)	4,197,089
Pool investment vehicles	1,372,379	448,502	(253,708)	89,340	1,656,513
Property	411,978	2,571	(22,304)	(24,751)	367,494
Derivatives - futures	-	-	-	-	-
Derivatives - forward foreign exchange	2,171	12,606	(4,382)	4,811	15,206
	7,200,000	**2,440,212**	**(2,430,166)**	**(516,637)**	**6,693,838**
Other financial assets / liabilities					
Cash deposits*	569,190			15,921	681,472
Broker balances*	(21)			(8)	42,202
Investment income due*	17,791			-	25,175
	586,960			**15,913**	**748,849**
Net financial assets	**7,786,960**			**(500,724)**	**7,442,687**

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

	Market value at 31 March 2018*	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2019*
	£000	£000	£000	£000	£000
Bonds	736,478	227,909	(152,586)	41,830	853,631
Equities	4,287,464	1,090,848	(1,122,578)	304,107	4,559,841
Pool investment vehicles	1,264,553	219,829	(261,125)	149,122	1,372,379
Property	392,743	21,290	-	(2,055)	411,978
Derivatives - futures	-	30	(30)	-	-
Derivatives - forward foreign exchange	11,917	8,223	(12,199)	(5,770)	2,171
	6,693,155	**1,568,129**	**(1,548,518)**	**487,234**	**7,200,000**
Other financial assets / liabilities					
Cash deposits*	426,380			16,376	569,190
Broker balances*	(2,211)			14	(21)
Investment income due*	17,163			-	17,791
	441,332			**16,390**	**586,960**
Net financial assets	**7,134,487**			**503,624**	**7,786,960**

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

15b Reconciliation of fair value measurements within level 3

	Market value at 31 March 2019	Level 3 transfers		Purchases at cost & derivative payments	Sale & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2020
Pooled investments	£000	in	out	£000	£000	£000	£000	£000
Infrastructure	844,860			176,081	(170,304)	(13,750)	98,683	935,570
Property	48,983	-	-	33	(826)	(2,105)	442	46,527
Private Equity	76,159			1,642	(22,790)	(10,154)	18,018	62,875
Timber	124,028			-	(563)	6,043	199	129,707
Private debt	204,996	-	-	89,399	(30,706)	3,841	(491)	267,039
Freehold property	411,978	-	-	2,571	(22,303)	(34,917)	10,165	367,494
	1,711,004	**-**	-	**269,726**	**(247,492)**	**(51,042)**	**127,016**	**1,809,212**

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

16 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2020

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	63,581	116,121	6,274	-
Up to one month	CAD	GBP	138,338	228,396	8,948	-
One to six months	CHF	USD	812	835	-	(22)
One to six months	USD	CHF	3,238	3,148	6	-
Open forward currency contracts at 31 March 2020					**15,228**	**(22)**
Net forward currency contracts at 31 March 2020						**15,206**
Prior year comparative						
Open forward currency contracts at 31 March 2019					**3,025**	**(854)**
Net forward currency contracts at 31 March 2019						**2,171**

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

In order 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.

17 Investment managers and mandates

Manager	Mandate	Market value at 31 March 2019 Restated £000	% of total 31 March 2019 Restated %	Market value at 31 March 2020 £000	% of total 31 March 2020 %
In-house	UK all cap equities	144,692	1.9	212,547	2.9
In-house	UK mid cap equities	121,698	1.6	91,095	1.2
Total UK equities		**266,390**	**3.5**	**303,642**	**4.1**
In-house	European ex UK equities	125,418	1.6	197,939	2.7
In-house	US equities	160,148	2.1	202,460	2.7
Total regional overseas equities		**285,566**	**3.7**	**400,399**	**5.4**
In-house	Global high dividend	1,006,587	12.9	1,016,988	13.7
In-house	Global low volatility	1,249,276	16.1	980,951	13.2
In-house	Global multi factor value	993,535	12.8	899,426	12.1
Harris	Global equities	278,794	3.6	177,602	2.4
Nordea	Global equities	306,617	3.9	290,006	3.9
Baillie Gifford	Global equities	123,103	1.6	121,808	1.6
Total global equities		**3,957,912**	**50.9**	**3,486,781**	**46.9**
In-house	Currency hedge	1,925	-	15,222	0.2
Total currency overlay		**1,925**	**-**	**15,222**	**0.2**
Total listed equities		**4,511,793**	**58.1**	**4,206,044**	**56.6**
In-house	Private equity unquoted	76,159	1.0	62,875	0.8
In-house	Private equity quoted	78,382	1.0	65,591	0.9
Total private equity		**154,541**	**2.0**	**128,466**	**1.7**
Total equity		**4,666,334**	**60.1**	**4,334,510**	**58.3**
In-house	Index linked gilts	595,360	7.6	400,458	5.4
In-house	Mature employer gilts	114,296	1.5	113,039	1.5
Total inflation linked assets		**709,656**	**9.1**	**513,497**	**6.9**
In-house	Indirect property	35,421	0.5	86,954	1.2
Standard Life	Property	516,767	6.6	0	0
In-house	Property	0	0	464,317	6.2
In-house	Infrastructure unquoted	844,860	10.8	935,570	12.6
In-house	Infrastructure quoted	24,819	0.3	26,087	0.4
In-house	Timber	124,029	1.6	129,707	1.7
Total real assets		**1,545,896**	**19.8**	**1,642,635**	**22.1**
Baillie Gifford	Corporate bonds	31,835	0.4	32,211	0.4
In-house	Private debt	204,996	2.6	267,039	3.6
In-house	Sovereign bonds	165,183	2.1	168,108	2.3
In-house	Investment Grade Credit	-	0.0	116,394	1.6
Total debt assets		**402,014**	**5.1**	**583,752**	**7.9**

17 Investment managers and mandates (cont)

Manager	Mandate	Market value at 31 March 2019 Restated	% of total 31 March 2019 Restated	Market value at 31 March 2020	% of total 31 March 2020
		£000	%	£000	%
In-house	Cash	462,976	5.9	367,144	4.9
In-house	Transitions	84	0.0	1,149	0.0
Total cash and sundries		**463,060**	**5.9**	**368,293**	**4.9**
Net financial assets		**7,786,960**	**100.0**	**7,442,687**	**100.0**

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

18 Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2020, £132.6m (2019 £407.2m) of securities were released to third parties. Collateral valued at 107.0% (2019 107.3%) of the market value of the securities on loan was held at that date.

19 Property holdings

	2018/19	2019/20
	£000	£000
Opening balance	392,743	411,978
Additions	21,290	2,096
Disposals	-	(22,303)
Net change in market value	(2,055)	(24,277)
Closing balance	**411,978**	**367,494**

As at 31 March 2020, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. As at 31 March 2020 the Fund is contractually obliged to further construction costs of £140k.

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

	2018/19	2019/20
	£000	£000
Within one year	23,257	17,886
Between one and five years	58,867	52,629
Later than five years	92,633	69,701
	174,757	**140,216**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

20 Financial Instruments

20a 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 is no difference between the carrying value and fair value.

Classification of financial instruments - parent	Restated 31 March 2019			31 March 2020		
	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	855,430	-	-	457,536	-	-
Equities	4,559,841	-	-	4,197,089	-	-
Pooled investments	1,372,379	-	-	1,656,513	-	-
Property Leases	2,284	-	-	-	-	-
Derivative contracts	3,025	-	-	15,228	-	-
Margin balances	-	-	-	-	-	-
Cash	-	569,189	-	-	681,472	-
Other balances	-	18,828	-	-	69,304	-
	6,792,959	**588,017**	**-**	**6,326,366**	**750,776**	**-**
Other assets						
City of Edinburgh Council	-	884	-	-	4,924	-
Cash	-	35,897	-	-	38,168	-
Share Capital	-	60	-	-	590	-
Debtors - current	-	22,345	-	-	18,119	-
Debtors - non-current	-	3,457	-	-	5,256	-
	-	**62,643**	**-**	**-**	**67,057**	**-**
Assets total	**6,792,959**	**650,660**	**-**	**6,326,366**	**817,833**	**-**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

Classification of financial instruments - parent (cont)	Restated 31 March 2019			Restated 31 March 2020		
	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	(854)	-	-	(22)	-	-
Other investment balances	-	-	(1,058)	-	-	(1,927)
	(854)	**-**	**(1,058)**	**(22)**	**-**	**(1,927)**
Other liabilities						
Creditors	-	-	(30,799)	-	-	(30,084)
Liabilities total	**(854)**	**-**	**(31,857)**	**(22)**	**-**	**(32,011)**
Total net assets	**6,792,105**	**650,660**	**(31,857)**	**6,326,344**	**817,833**	**(32,011)**

	2019	2020
Total net financial instruments	**7,410,908**	**7,112,166**
Amounts not classified as financial instruments	410,125	368,152
Total net assets - parent	**7,821,033**	**7,480,318**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20a Classification of financial instruments (cont)

Classification of financial instruments - adjustments to parent to arrive at group	Restated 31 March 2019			Restated 31 March 2020		
	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	-	341	-	-	870	-
Share Capital	-	(60)	-	-	(590)	-
Debtors - current	-	223	-	-	328	-
Debtors - non-current	-	393	-	-	424	-
	-	**897**	**-**	**-**	**1,032**	**-**
Assets total	**-**	**897**	**-**	**-**	**1,032**	**-**
Other liabilities						
Retire. benefit obligation	-	-	(2,309)	-	-	(2,232)
Creditors	-	-	(346)	-	-	(359)
Creditors - non current	-	-	(13)	-	-	(15)
Liabilities total	**-**	**-**	**(2,668)**	**-**	**-**	**(2,606)**
Total net assets	**-**	**897**	**(2,668)**	**-**	**1,032**	**(2,606)**
Total net financial instruments			**(1,771)**			**(1,574)**
Total net assets - parent			**7,819,262**			**7,478,744**

20b Net gains and losses on financial instruments

	2018/19	2019/20
	£000	**£000**
Designated as fair value through fund account	489,399	(491,886)
Loans and receivables	16,390	15,913
Financial liabilities at amortised cost	-	-
Total	**505,789**	**(475,973)**
Gains and losses on directly held freehold property	(2,055)	(24,751)
Change in market value of investments per fund account	**503,734**	**(500,724)**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

20c 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 is not 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.

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

20c Fair Value Hierarchy (cont)

	31 March 2020			
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Designated as fair value through fund account	4,238,267	646,381	1,441,718	6,326,366
Non-financial assets at fair value through profit and loss	-	-	367,494	367,494
Total investment assets	**4,238,257**	**646,381**	**1,809,212**	**6,693,860**
Investment liabilities				
Designated as fair value through fund account	-	(22)	-	(22)
Total investment liabilities	**-**	**(22)**	**-**	**(22)**
Net investment assets	**4,238,267**	**646,359**	**1,809,212**	**6,693,838**

	Restated 31 March 2019			
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Designated as fair value through fund account	4,563,196	926,654	1,299,026	6,788,876
Non-financial assets at fair value through profit and loss	-	-	411,978	411,978
Total investment assets	**4,563,196**	**926,654**	**1,711,004**	**7,200,854**
Investment liabilities				
Designated as fair value through fund account	-	(854)	-	(854)
Total investment liabilities	**-**	**(854)**	**-**	**(854)**
Net investment assets	**4,563,196**	**925,800**	**1,711,004**	**7,200,000**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

21 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 are 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

21 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	30.0%
Private Equity	30.0%
Timber and Gold	18.0%
Secured Loans	10.0%
Fixed Interest Gilts	5.9%
Index-Linked Gilts	10.9%
Infrastructure	12.0%
Property	13.0%
Cash	0.8%

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

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

	Value at 31 March 2020	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Equities - Developed Markets	3,898	52.4	20.5%	4,697.1	3,098.9
Equities - Emerging Markets	293	3.9	30.0%	380.9	205.1
Private Equity	128	1.7	30.0%	166.4	89.6
Timber and Gold	130	1.7	18.0%	153.4	106.6
Secured Loan	416	5.6	10.0%	457.6	374.4
Fixed Interest Gilts	168	2.3	5.9%	177.9	158.1
Index-Linked Gilts	515	6.9	10.9%	571.1	458.9
Infrastructure	962	12.9	12.0%	1,077.4	846.6
Property	549	7.4	13.0%	620.4	477.6
Cash and forward foreign exchange	384	5.2	0.8%	387.1	380.9
Total [1]	**7,443**	**100.0**	**16.7%**	**8,689.3**	**6,196.7**
Total [2]			**13.0%**	**8,412.1**	**6,473.9**
Total [3]			**13.7%**	**8,464.2**	**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 is not 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

21 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 is not reflected in market prices.

Cash deposits

At 31 March 2020, cash deposits represented £719.6m, 9.5% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2020	Balances at 31 March 2019	Balances at 31 March 2020
Held for investment purposes		**£000**	**£000**
Northern Trust Global Investment Limited - liquidity funds	Aaa-mf	13,517	88,569
Northern Trust Company - cash deposits	Aa2	443,357	238,706
UK Short-Term Bills and Notes	Aa2	-	218,968
The City of Edinburgh Council - treasury management	See below	112,315	135,229
Total investment cash		**569,189**	**681,472**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	35,897	38,168
Total cash - parent		**605,086**	**719,640**
Cash held by LPFE/LPFI Limited			
Royal Bank of Scotland	A1	341	870
Total cash - group		**605,427**	**720,510**

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

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

	Moody's Credit Rating at 31 March 2020	Balances at 31 March 2019	Balances at 31 March 2020
Money market funds		**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	3,979	20,825
Goldman Sachs	Aaa-mf	58	12,444
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	21,746	23,005
Bank call accounts			
Bank of Scotland	Aa3	14,578	4,795
Royal Bank of Scotland	A1	573	9,634
Santander UK	Aa3	1	-
Barclays Bank	A1	13	12
Svenska Handelsbanken	Aa2	6	6
HSBC Bank PLC	Aa3	14	4
Notice accounts			
HSBC Bank PLC	Aa3	17,527	9,044
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa2	89,717	93,628
		148,212	**173,397**

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2020 was 'Aa2').

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 does not expect any losses from non-performance by any of its counterparties in relation to deposits.

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

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

Securities lending
The Fund participates in a securities lending programme as described above. The Fund is potentially exposed to credit risk in the event of the borrower of securities defaulting. This risk 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 2020, the Fund was owed £15.2m 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 is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

Liquidity risk
Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is 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 76% (2019 78%)) of the Fund's investments could be converted to cash within three months in a normal trading environment.

22 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

23 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 £8,722m (2019 £9,435m). The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2019	31 March 2020
	% p.a.	% p.a.
Inflation / pensions increase rate	2.5	1.9
Salary increase rate	4.2	3.5
Discount rate	2.4	2.3

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2016 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2019		31 March 2020	
	Male	Female	Male	Female
Current pensioners	21.7 years	24.3 years	21.7 years	24.3 years
Future pensioners (assumed to be currently 45)	24.7 years	27.5 years	24.7 years	27.5 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

24 Non-current Debtors

	LPF Parent 31 March 2019	LPF Group 31 March 2019	LPF Parent 31 March 2020	LPF Group 31 March 2020
	£000	£000	£000	£000
Contributions due employers' cessation	3,457	3,457	5,256	5,256
	3,457	3,457	5,256	5,256

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.

25 Debtors

	LPF Parent 31 March 2019	LPF Group 31 March 2019	LPF Parent 31 March 2020	LPF Group 31 March 2020
	£000	£000	£000	£000
Contributions due - employers	16,831	16,831	13,680	13,680
Contributions due - members	4,691	4,691	3,808	3,807
Benefits paid in advance or recoverable	6	6	49	49
Sundry debtors	503	717	195	525
Prepayments	314	323	386	386
LPFE & LPFI Limited Loan facility - see note 28	-	-	-	-
	22,345	22,568	18,118	18,447

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

26 Creditors

	LPF Parent 31 March 2019	LPF Group 31 March 2019	LPF Parent 31 March 2020	LPF Group 31 March 2020
	£000	£000	£000	£000
Benefits payable	8,886	8,886	6,622	6,622
VAT, PAYE and State Scheme premiums	1,354	1,738	4,402	4,863
Contributions in advance	17,785	17,785	16,742	16,742
Miscellaneous creditors and accrued expenses	2,332	2,488	1,791	2,004
Office - operating lease	220	220	197	197
Corporation tax	-	28	-	13
Corporation tax losses utilised from CEC group	-	-	-	2
Intra group creditor - see note 28	222	-	329	-
	30,799	**31,145**	**30,083**	**30,443**

27 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 are not included in the pension fund financial statements.

	2018/19	2019/20
Total contributions during year for Lothian Pension fund	£000	£000
Standard Life	312	323
Prudential	2,225	2,037
	2,537	**2,360**

	31 March 2019	31 March 2020
Total value at year end for Lothian Pension Fund	£000	£000
Standard Life	4,685	4,102
Prudential	7,676	7,515
	12,361	**11,617**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

28 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 is 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 2019	31 March 2020
	£000	£000
Year end balance of holding account	884	4,924
	884	**4,924**

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 2020, the fund had an average investment balance of £144.7m (2018/19 £139.1m). Interest earned was £1135k (2018/19 £977.1k)

Year end balance on treasury management account

	31 March 2019	31 March 2020
	£000	£000
Held for investment purposes	112,315	135,229
Held for other purposes	35,897	38,168
	148,212	**173,397**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

28 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 127. The employer contributions for the ten largest scheme employers are as follows:

	31 March 2019	31 March 2020
	£000	£000
City of Edinburgh Council	59,694	64,051
West Lothian Council	25,841	26,458
Scottish Water	15,975	16,504
East Lothian Council	14,746	15,799
Midlothian Council	14,041	14,927
Lothian Buses	7,002	6,565
Edinburgh Napier University	5,199	5,521
Heriot-Watt University	3,026	3,205
Scottish Police Authority	3,016	2,802
Edinburgh College	2,676	2,777

Governance

As at 31 March 2020, all members of the Pensions Committee, with the exception of Richard Lamont, and all members of the Pension Board, with the exception of Sharon Cowle, were members of the Lothian Pension Fund. One member of both the Pensions Committee and the Pension Board are 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 2019 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 2019	31 March 2020
	£000	£000
Short-term employee benefits	647	757
Post-employment benefits - employer pension contributions	111	140

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

28 Related parties (cont)

Key management personnel employed by LPFE had accrued pensions totalling £106,596 (1 April 2019: £120,245) and lump sums totalling £121,925 (1 April 2019: £132,375) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 189.

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

The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

LPFE Limited & LPFI Limited- loan facility

LPFE & LPFI Limited are wholly owned by the City of Edinburgh Council as administrating 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 2020 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 £2,132 of which £1,037 was due at the year end and for LPFI Limited there was minimal interest payable for the year. At 31 March 2020, there was zero balance on the loan facilities for both LPFE Limited and 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 2020, the Fund was invoiced £4,239k (2019 £3,614k) for the services of LPFE Limited staff.

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

29a Consolidated Lothian Pension Fund Group - LPFE Limited & LPFI Limited - deferred tax

Movement in deferred tax asset (Non-current asset)

	LPF Group 2018/19	LPF Group 2019/20
	£000	£000
At 1 April 2018	292	393
Credit for year to Fund Account	101	31
At 31 March 2019	**393**	**424**

Elements of closing deferred tax asset

	LPF Group 31 March 2019	LPF Group 31 March 2020
	£000	£000
Pension liability	393	424
	393	**424**

29b Shares in group companies - LPFE Limited & LPFI Limited

	31 March 2019	31 March 2020
	£	£
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	60,000	590,378
	60,001	**590,379**

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. 'a'

As part of the LPFI's FCA permissions extension, the Fund is required to meet new ICAAP capital requirements based on the value of assets under management. The Fund financed an additional £530k of share capital for LPFI in March 2020 to meet this requirement.

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

30 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 City of Edinburgh Council's Financial Statements.

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 2019	% of total 31 March 2019	Fair value at 31 March 2020	% of total 31 March 2020
Asset		**£000**	**%**	**£000**	**%**
Equity securities:	Consumer	1,094	14.0	1,036	10.0
	Manufacturing	1,265	15.0	1,568	14.0
	Energy & Utilities	777	6.0	693	7.0
	Financial institutions	865	9.0	707	7.0
	Health & care	559	5.0	752	7.0
	Information Technology	335	6.0	470	4.0
	Other	1,003	6.0	794	7.0
Debt securities:	Corporate Bonds	-	2.0	582	5.0
	UK Government	1,045	10.0	669	6.0
Private equity:	All	139	2.0	95	1.0
Real property:	UK property	697	6.0	712	7.0
	Overseas property	-	0.0	10	0.0
Investment funds and unit trusts:	Equities	102	1.0	133	1.0
	Bonds	261	0.0	46	0.0
	Infrastructure	1,277	12.0	1,529	14.0
Derivatives:	Foreign Exchange	3	0.0	22	0.0
Cash and cash equivalents	All	863	6.0	1,053	10.0
		10,285	**100.0**	**10,871**	**100.0**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - group (cont)

Amounts recognised in the Net Assets Statement

	LPF Group 31 March 2019	LPF Group 31 March 2020
	£000	£000
Fair value of Fund assets	10,285	10,871
Present value of Fund liabilities	(12,594)	(13,103)
	(2,309)	**(2,232)**

Movement in the defined benefit obligation during the period

	LPF Group 31 March 2018/19	LPF Group 31 March 2019/20
	£000	£000
Brought forward	10,367	12,594
Current service cost	843	1,144
Past service cost	-	307
Interest cost on obligation	294	332
Fund participants contributions	186	233
Benefits paid	-	(11)
Actuarial losses arising from changes in financial assumptions	904	(1,496)
Actuarial losses arising from changes in demographic assumptions	-	-
Other actuarial losses	-	-
Balance at year end	**12,594**	**13,103**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - group (cont)

Movement in the fair value of Fund assets during the period

	LPF Group 31 March 2018/19	LPF Group 31 March 2019/20
	£000	£000
Brought forward	8,652	10,285
Benefits paid		
Interest income on Fund assets	244	270
Contributions by employer	567	792
Contributions by member	194	233
Contributions in respect of unfunded benefits	-	(11)
Unfunded benefits paid	(8)	
Effect of business combinations and disposals	-	
Return on assets excluding amounts included in net interest	636	(698)
Balance at year end	**10,285**	**10,871**

Amounts recognised in the Fund Account

	LPF Group 31 March 2018/19	LPF Group 31 March 2019/20
	£000	£000
Interest received on Fund assets	(244)	(270)
Interest cost on Fund liabilities	294	332
Current service costs	843	1,144
Past service costs	-	307
Employer contributions	(567)	(792)
Actuarial gain/(loss) due to re-measurement of defined benefit obligation	904	(1,496)
Return on Fund assets (excluding interest above)	(636)	698
Net cost recognised in Fund account	**594**	**(77)**

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - group (cont)

Principal actuarial assumptions used in this valuation	**31 March 2019**	**31 March 2020**
	% p.a.	**% p.a.**
Inflation / pensions increase rate	2.4	1.8
Salary increase rate	4.1	3.4
Discount rate	**2.5**	**2.3**

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 is 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 is 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 Fund specific statistical analysis with improvements in line with the CMI 2012 model assuming current rates of improvements have peaked and will converge to a long term rate of 1.25% p.a.

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

	31 March 2019		**31 March 2020**	
	Male	**Female**	**Male**	**Female**
Current pensioners	21.7 years	24.3 years	21.7 years	24.3 years
Future pensioners	24.7 years	27.5 years	24.7 years	27.5 years

Expected employer contributions to the defined benefit plan for the year ended 31 March 2021 are £881k, based on a pensionable payroll cost of £2,895k

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

31 Contractual commitments

Investment commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the private 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 2019	31 March 2020
	£000	£000
Outstanding investment commitment	325,361	301,002
	325,361	**301,002**

Office accommodation - 144 Morrison Street, Edinburgh

The Fund is committed to making the following future payments.

	31 March 2019	31 March 2020
	£000	£000
Within one year	115	124
Between one and five years	345	373
After five years	647	566
	1,107	**1,063**
Recognised as an expense during the year	**92**	**105**

The Fund is overdue a review on its rent agreement, the above expense including a provision for a backdated rental increase. This expense has been allocated across the two Funds, with Lothian Pension Fund's share being £103k.

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

32 Contingent assets and liabilities

Contribution refunds

At 31st March 2020, Lothian Pension Fund had £914k (2019: £909k) in unclaimed refunds due to members.

Employer Cessations

As stated in note 24, "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 2020, such contingent assets of the Fund totalled £1,635k and the fund has secured second ranking security over two employer property assets.

Waverley Care, Freespace and Four Square also left the Fund during the 2019/20 year. The Fund is currently working with the Actuary to finalise exit valuations. Waverley Care and Freespace have indicated they are unlikely to be able to meet their exit deficits in full and funding agreements will be put in place as required. At 31 March 2020, it is estimated that these cessation debts would be valued at circa. £3,500k.

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. The claims can be divided into three main types – "Manninen" / Foreign Income Dividends (Fids), "Fokus Bank" and Manufactured Dividends. 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 £11.6m. 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

32 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 February to 31 January 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 2019/20 and payment two for the 2018/19 was made in January 2020. A liability has been raised at 31 March 2020 for the two months of service for the second and third instalment of 2019/20 and third instalment of 2018/19 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 January 2020 remain in the company's employment there is a contingent liability of £468,395 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.

Age Discrimination in Public Service Pension

On 13 May 2020, the Scottish Public Pensions Agency (SPPA) advised that:

> "In December 2018, the Court of Appeal found that the transitional protections introduced to the judicial and firefighters' schemes during the reform of public service pensions in 2015 discriminated on grounds of age. The UK Government sought permission to appeal this decision but this was not granted, and on 15 July 2019 the UK Government issued a written ministerial statement to confirm that as transitional protection was provided in all public service schemes, the ruling had implications for all those schemes, including the Scottish Local Government Pension Scheme (SLGPS).
>
> "Details of the Court of Appeal ruling, hereafter referred to as McCloud, are available...
>
> "Whilst initial proposals to address the specific discrimination in the SLGPS have been shared with the scheme advisory board, there remains uncertainty around the timing and changes needed in light of McCloud."

The Fund's IAS26 reporting from its actuary, as disclosed in Note 23, takes into account the appeal decision. There remains significant uncertainty over the remedy to be applied and associated costs to Scottish LGPS funds.

LOTHIAN PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

32 Contingent assets and liabilities (cont)

Employer Cost Cap considerations

In the same communication of 13 May 2020, SPPA stated:

> "The reforms introduced to public service pensions from 1 April 2015 (or a year earlier in the case of the local government scheme in England and Wales) also included a new cost control mechanism, known as the employer cost cap.
>
> "The purpose of the mechanism was to introduce a way of sharing pension cost increases and savings between the employer (ultimately often the taxpayer) and scheme members...
>
> "The first cost cap valuation for LGPS Scotland was due to take place at 31 March 2017. As you are aware, GAD commenced this process however it has not yet been completed, as the cost cap element of scheme valuations was suspended by the UK Government in early 2019 pending the resolution of McCloud. In a written ministerial statement on 25 March 2020, the Economic Secretary to the Treasury outlined the UK Government's intention to provide an update on the cost cap mechanism alongside proposals to address McCloud.
>
> "We realise the challenges that actuaries face in considering the uncertainties in McCloud and the cost cap, particularly given the tight timescales for completing valuations. We regret that we are currently unable to suggest how provision might be made for any running of the cost cap process but hope to have more clarity in the next two months. We will write to administering authorities to provide an update at the earliest opportunity."

33 Impairment losses

	2018/19	2019/20
	£000	£000
Bad Debt provision	43	166

During the year the Fund recognised an increase in impairment losses in respect of specific benefit over payments for which reimbursement has been requested of £123k. This increased the impairment to £166k at the year end.

LOTHIAN PENSION FUND ACTUARIAL STATEMENT FOR 2019/20

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. 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 (FSS), dated March 2018. 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
- 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 achieve these objectives.

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 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £6,598 million, were sufficient to meet 98% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £145 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 given time horizon. Contribution rates were set using one of two approaches depending on each employer's circumstances:

Certain low risk and open employers participate in a contribution stability mechanism which limits annual changes in contribution rates. The mechanism is tested at each valuation to make sure it achieves the desired funding objectives.

Other employers pay the contributions required to cover the cost of future service benefits and to recover the deficit/surplus identified as at 31 March 2017 over a given time period

Individual employers' contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS, which includes further detail on the approaches mentioned above.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.

LOTHIAN PENSION FUND ACTUARIAL STATEMENT FOR 2019/20

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 2017 valuation were as follows:

	31 March 2017
Financial assumptions	**% p.a.**
Discount rate	3.2%
Salary increase assumption	4.1%
Benefit increase assumption (CPI)	2.4%

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 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	21.7 years	24.3 years
Future Pensioners *	24.7 years	27.5 years

**Aged 45 as at 31 March 2017*

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the 2019/20 financial year. As a result, the funding level of the Fund as at 31 March 2020 is expected to have reduced versus that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Laura McInroy FFA
For and on behalf of Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB
Friday, 15 May 20

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2020

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	Visit Scotland
Midlothian Council	West Lothian College
Scotland's Rural College (SRUC)	West Lothian Council

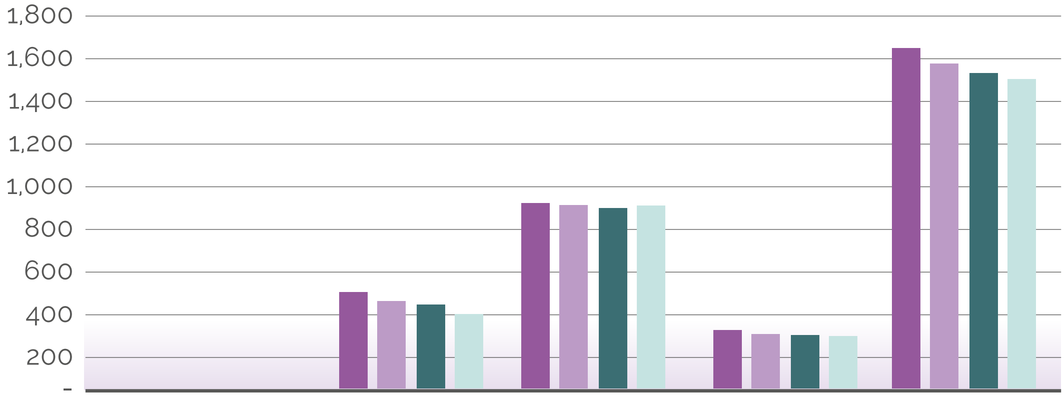
Admitted Bodies	
Amey Services	Improvement Service (The)
Audit Scotland	ISS UK Ltd
Baxter Storey	LPFE Ltd
Bellrock Property and Facilities Management	Melville Housing Association
Canongate Youth Project	Mitie (Edinburgh College)
Capital City Partnership	Mitie PFI
CGI UK Ltd	Morrison Facilities Services Ltd
Children's Hearing Scotland	Museums Galleries Scotland
Children's Hospice Association Scotland	Newbattle Abbey College
Citadel Youth Centre	North Edinburgh Dementia Care
Compass Chartwell	NSL Services Ltd
Convention of Scottish Local Authorities	Penumbra

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2020

Cyrenians	Pilton Equalities Project
Dacoll Limited	Queen Margaret University
Edinburgh Development Group	Royal Edinburgh Military Tattoo
Edinburgh International Festival Society	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
Granton Information Centre	Stepping Out Project
Handicabs (Lothian) Ltd	University of Edinburgh (Edinburgh College of Art)
Hanover (Scotland) Housing Association	Weslo Housing Management
Health in Mind	West Granton Community Trust
Homes for Life Housing Partnership	West Lothian Leisure
HWU Students Association	Young Scot Enterprise

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

SCOTTISH HOMES PENSION FUND ACCOUNTS



	Active	Deferred	Pensioners	Dependants	Total
31 March 2017	-	478	919	289	1,686
31 March 2018	-	433	908	269	1,610
31 March 2019	-	416	893	264	1,573
31 March 2020	-	368	905	260	1,533

** 2019 and 2020 include HAS members*

Homeless Action Scotland

The admission to Local Government Pension membership of Homeless Action Scotland (HAS) was terminated by LPF with effect from 12 July 2018. At the point of transfer, HAS had eleven deferred members, four pensioner members and one dependant member. The Actuary calculated the liabilities that remained on cessation at £641,000. Following specific request by LPF, on 31 March 2020, the Scottish Ministers issued a direction to the effect that:

(a) SHPF be substituted for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and that all assets and liabilities of LPF relating to the Scheme employer are transferred to SHPF as at that date

(b) with effect from 11 July 2018, City of Edinburgh Council, as the administering authority of SHPF, shall admit the Scheme employer as an admission body of SHPF

(c) the administering authority must by 30 June 2020 execute all documents and do all things necessary to complete the substitution of SHPF for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and the transfer of all assets and liabilities of Lothian Pension Fund relating to the Scheme employer to SHPF as at that date.

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

Investment strategy

The Fund's actuary estimated that the funding level of the Scottish Homes Pension Fund was 104.7% at 31 March 2017.

Achievement of full funding meant that the Fund no longer needed to take investment risk by investing in equities and property. Instead, the Fund was able to minimise risk by investing solely in bonds, specifically UK gilts. These financial instruments move proportionately with liability values.

After a year of significant change, the year to 31 March 2020 brought no change to the strategy allocation of 100% bonds and this shouldn't change until at least the results of the next actuarial valuation (March 2020) are known. At that point in time, the actuary will amend financial and demographic estimates based on actual experience over the prior three years.

The strategic and actual asset allocations for the Fund at the end of the 2019 and 2020 financial years are shown in the table below.

Asset Class	Strategic Allocation	Actual Allocation	Strategic Allocation	Actual Allocation
	31 March 2019	31 March 2019	31 March 2020	31 March 2020
	%	%	%	%
Equities	-	-	-	-
Bonds	100	98	100	99
Property	-	-	-	-
Cash	-	2	-	1
Total	**100**	**100**	**100**	**100**

Given that the Fund had achieved full funding, the Pensions Committee approved a new investment objective in June 2018: "To match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the fund."

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

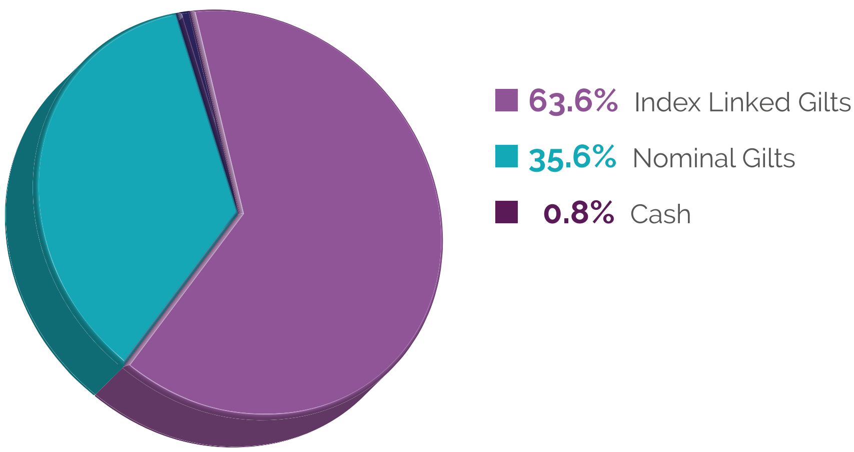
Detailed analysis of the Scottish Homes liabilities was undertaken during 2018/19 to ensure that the invested assets are as closely matched with the liability profile as possible, taking into consideration the expected duration of liabilities and whether they're fixed or index-linked in nature.

This resulted in a portion of index-linked gilts being sold and reinvested in nominal gilts to achieve a closer asset-liability match. There have been no further changes over 2019/20.

At 31 March 2020, the Fund is 'cash flow matched' up to one year beyond the next actuarial valuation expected in early 2021, and 'duration matched' liabilities beyond that. This is because there is greater certainty in the earlier period – funding levels will continue to be subject to the actuary's financial or demographic assumptions of future experience, which will be reassessed during 2020/21.

The actual asset allocation of the Fund is shown in the pie chart below.

ACTUAL ASSET ALLOCATION 31 MARCH 2020



Investment movements

As the Scottish Homes Pension Fund is 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.

The Fund's assets have increased in value by 3.9% over the year, adjusted for cash flow movements to pay pensions.

SCOTTISH HOMES PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2020

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 and as well as the cost of providing benefits and administration of the Fund.

Restated 2018/19			2019/20
£000		Note	£000
	Income		
-	Contributions from the Scottish Government	4	-
1,726	Transfers from other schemes		-
1,726			**-**
	Less: expenditure		
6,607	Pension payments including increases		6,653
591	Lump sum retirement payments		621
5	Lump sum death benefits		4
129	Transfers to other schemes	6	-
(17)	Administrative expenses	7b	(25)
7,315			**7,253**
(5,589)	**Net withdrawals from dealing with members**		**(7,253)**
	Returns on investments		
1,824	Investment income	8	2,466
5,877	Change in market value of investments	9, 12b	4,473
(84)	Investment management expenses	7c	(104)
7,617	**Net returns on investments**		**6,835**
2,028	**Net increase/(decrease) in the Fund during the year**		**(418)**
164,460	Net assets of the Fund at 1 April 2019		166,488
166,488	**Net assets of the Fund at 31 March 2020**	**12c**	**166,070**

SCOTTISH HOMES PENSION FUND
NET ASSETS STATEMENT AS AT 31 MARCH 2020

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

Restated 31 March 2019			31 March 2020
£000		Note	£000
	Investment Assets		
160,542	Bonds - UK		159,933
3,650	Cash Deposits		3,824
618	Other investment assets		615
164,810			**164,372**
	Investment Liabilities		
-	Other investment liabilities		-
-			-
164,810	**Net investment assets**	**10**	**164,372**
	Current assets		
10	The City of Edinburgh Council	18	130
1,741	Cash balances	13, 18	1,599
1	Debtors	16	2
1,752			**1,731**
	Current liabilities		
(74)	Creditors	17	(33)
(74)			**(33)**
1,678	**Net current assets**		**1,698**
166,488	**Net assets of the Fund**	**12**	**166,070**

The unaudited accounts were issued on 24 June 2020 and the audited accounts were authorised for issue on 29 September 2020.

John Burns FCMA CGMA, PgC
Chief Finance Officer, Lothian Pension Fund
29 September 2020

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 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.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Net Assets Statement as at 31 March 2020

1 Statement of Accounting Policies

The statement of accounting policies for both Funds can be found on page 157.

2 Prior Year Adjustment

Ministerial Direction – Homeless Action Scotland

The admission to Local Government Pension (LGPS) membership of Homeless Action Scotland (HAS) was terminated by Lothian Pension Fund (LPF) with effect from 12 July 2018. The Actuary to LPF calculated the liabilities that remained on cessation at £641,000. Following specific request by LPF, on 31 March 2020, the Scottish Ministers issued a direction to the effect that:

(a) Scottish Homes Pension Fund (SHPF) be substituted for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and that all assets and liabilities of Lothian Pension Fund relating to the Scheme employer are transferred to SHPF as at that date;

(b) with effect from 11 July 2018, City of Edinburgh Council, as the administering authority of SHPF, shall admit the Scheme employer as an admission body of SHPF; and

(c) the administering authority must by 30 June 2020 execute all documents and do all things necessary to complete the substitution of SHPF for Lothian Pension Fund as the appropriate fund for the Scheme employer as at 11 July 2018 and the transfer of all assets and liabilities of Lothian Pension Fund relating to the Scheme employer to SHPF as at that date.

	2018/19 Audited	Adjustment	2018/19 Restated
	£000	£000	£000
Transfers from other schemes	-	1,726	1,726
Pension Payments	6,572	35	6,607
Administrative Expenses	(19)	2	(17)
Change in Market Value of Investments	5,767	110	5,877
Bonds - UK	158,743	1,799	160,542

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

3 Events after the Reporting Date

There have been no events since 31 March 2020, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

4 Contributions from the Scottish Government

The Scottish Homes Pension Fund (SHPF) is a dual employer pension fund for former employees of Scottish Homes (subsequently Communities Scotland) (and persons who were employed by the Scottish Special Housing Association, but who did not become employees of Scottish Homes) and former employees of 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 Regs). 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 (that is, the fund has no contributions paid into it by active members but consists only deferred and pensioner members and therefore only pays money out to the pensioners).

Section 2 (1C) of the 2005 Regs 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 2017, SHPF showed a funding surplus of £7.7million with a funding level of 104.7%, derived from a market valuation of assets of £170.6million and liabilities of £162.9million.

Having implemented the investment strategy as required by the Funding Agreement, the assets of SHPF are invested entirely in low risk, index-linked gilts. With a funding surplus, the Scottish Government is not required to provide any contribution, but as Guarantor has the responsibility to pay towards the administration expenses of the Fund estimated to be £70,000 per annum (for years 2018 to 31 March 2021).

In addition the Guarantor is responsible for meeting the cost of investment expenses . Given the Fund's surplus the Fund is comfortable that investment expenses can be met directly by the Fund until the next triannual valuation.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

5 Transfers from other pension schemes

	Restated 2018/19	2019/20
	£000	£000
Group transfers	1,726	-
Individual transfers	-	-
	1,726	**-**

6 Transfers out to other pension schemes

	2018/19	2019/20
	£000	£000
Group transfers	-	-
Individual transfers	129	-
	129	**-**

7a Total Management expenses

	Restated 2018/19	2019/20
	£000	£000
Administrative costs	(17)	(25)
Investment management expenses	50	62
Oversight and governance costs	34	42
	67	**79**

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 7b and c and splits out the costs to include a third heading covering oversight and governance expenditure.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

7b Administrative expenses

	Restated 2018/19 £000	2019/20 £000
Employee costs	28	26
System costs	8	9
Actuarial fees	8	2
External audit fees	1	1
Printing and postage	2	3
Depreciation	1	1
Office costs	2	2
Sundry costs less sundry income	3	1
	53	**45**
Administration fee received	(70)	(70)
	(17)	**(25)**

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.

7c Investment management expenses

	2018/19 £000	2019/20 £000
External management fees - deducted from capital (direct)	-	-
Transaction costs	2	-
Employee costs	44	56
Custody fees	6	8
Engagement and voting fees	2	3
Performance measurement fees	3	-
Consultancy fees	3	1
System costs	9	12
Legal fees	2	3
Office costs	2	3
Sundry costs less sundry income	11	18
	84	**104**

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

8 Investment income

	2018/19	2019/20
	£000	£000
Income from fixed interest securities	1,749	2,437
Interest on cash deposits and sundries	75	29
	1,824	2,466
Irrecoverable withholding tax	-	-
	1,824	2,466

9 Reconciliation of movement in investments

	Market value at 31 March 2019	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2020
	£000	£000	£000	£000	£000
Bonds	160,542	-	(5,015)	4,406	159,933
Equities	-	-	-	-	-
Pooled investment vehicles	-	-	-	-	-
	160,542	-	(5,015)	4,406	159,933
Other financial assets / (liabilities)					
Cash deposits*	3,650			12	3,824
Investment income due/ amounts payable*	618			-	615
	4,268			12	4,439
Net financial assets	164,810			4,418	164,372

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.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

9 Reconciliation of movement in investments (cont)

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 2018	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2019
	£000	£000	£000	£000	£000
Bonds	148,064	54,948	(50,036)	7,566	160,542
Equities	-	-	-	-	-
Pooled investment vehicles	-	-	-	-	-
	148,064	**54,948**	**(50,036)**	**7,566**	**160,542**
Other financial assets / (liabilities)					
Cash deposits*	9,094			-	3,650
Investment income due/ amounts payable*	4,904			-	618
	13,998			**-**	**4,268**
Net financial assets	**162,062**			**7,566**	**164,810**

** 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

10 Investment managers and mandates

		Restated Market value at 31 March 2019	Restated % of total 31 March 2019	Market value at 31 March 2020	% of total 31 March 2020
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	Ex-Equity	31	0.0	27	0.0
Total UK equities		**31**	**0.0**	**27**	**0.0**
In-house	UK Index linked gilts	161,129	97.8	163,021	99.2
Total fixed interest and inflation linked bonds		**161,129**	**97.8**	**163,021**	**99.2**
In-house	Cash	3,650	2.2	1,324	0.8
Total cash		**3,650**	**2.2**	**1,324**	**0.8**
Net financial assets		**164,810**	**100.0**	**164,372**	**100.0**

11 Investments representing more than 5% of the net assets of the Fund

	Restated Market value at 31 March 2019	Restated % of total 31 March 2019	Market value at 31 March 2020	% of total 31 March 2020
	£000	**%**	**£000**	**%**
UK Gov 2.5% Index Linked 16/04/20	11,619	7.0	11,411	6.9
UK Gov 4.25% 07/06/32	9,366	5.6	9,880	6.0
UK Gov 4.125% Index Linked 22/07/30	9,124	5.5	9,258	5.6
UK Gov 1.25% Index Linked 22/11/27	8,914	5.4	9,033	5.4
UK Gov 2.5% Index Linked 17/07/24	9,053	5.4	8,913	5.4
UK Gov 1.875% Index Linked 22/11/22	8,240	5.0	8,049	4.8

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12 Financial Instruments

12a 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 is no difference between the carrying value and fair value.

	Restated 31 March 2019			31 March 2020		
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	160,542	-	-	159,933	-	-
Cash	-	3,650	-	-	3,824	-
Other balances	-	618	-	-	615	-
	160,542	**4,268**	**-**	**159,933**	**4,439**	**-**
Other assets						
City of Edinburgh Council	-	10	-	-	130	-
Cash	-	1,741	-	-	1,599	-
Debtors	-	1	-	-	2	-
	-	**1,752**	**-**	**-**	**1,731**	**-**
Assets total	**160,542**	**6,020**	**-**	**159,933**	**6,170**	**-**
Financial liabilities						
Other liabilities						
Creditors	-	-	(74)	-	-	(33)
Liabilities total	**-**	**-**	**(74)**	**-**	**-**	**(33)**
Total net assets	**160,542**	**6,020**	**(74)**	**159,933**	**6,170**	**(33)**
Total net financial instruments			**166,488**			**166,070**

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12b Net gains and losses on financial instruments

	Restated 2018/19	2019/20
	£000	£000
Designated as fair value through fund account	7,566	4,406
Loans and receivables	-	12
Financial liabilities at amortised cost	-	-
Total	**7,566**	**4,418**

12c 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 is not 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.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12c Valuation of financial instruments carried at fair value (cont)

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.

The values of the investments in unquoted private 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 2020			
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Designated as fair value through fund account	-	159,933	-	159,933
Total investment assets	**-**	**159,933**	**-**	**159,933**
Investment liabilities				
Designated as fair value through fund account	-	-	-	-
Total investment liabilities	**-**	**-**	**-**	**-**
Net investment assets	**-**	**159,933**	**-**	**159,933**

	Restated 31 March 2019			
	Level 1	Level 2	Level 3	Total
Investment assets	**£000**	**£000**	**£000**	**£000**
Designated as fair value through fund account	-	160,542	-	160,542
Total financial assets	**-**	**160,542**	**-**	**160,542**
Investment liabilities				
Designated as fair value through fund account	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**
Net investment assets	**-**	**160,542**	**-**	**160,542**

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

13 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, after 31 March 2017 triennial valuation showed a funding level of 104.7%, the assets of the Fund were invested entirely in low risk gilts. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they are due to be paid.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The 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 Scottish Homes Pension Fund has to some extent been mitigated. The Fund's assets have been matched to its liabilities as at the 31 March 2017 triennial valuation so 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 will next take place to coincide with the results of 31 March 2020 triennial valuation.

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 by the Fund's investment adviser Isio:

Asset type	Potential price movement (+ or -)
Index-Linked Gilts	17.8%
Cash	0.0%

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

13 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 is 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 table below shows the risks at the asset class level and the overall Fund level.

	Value at 31 March 2020	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£000	%	%	£000	£000
Index-Linked Gilts	163,021	99.2	17.8	192,093	133,949
Cash	1,351	0.8	0.0	1,351	1,351
Total [1]	**164,372**	**100.0**	**17.8**	**193,444**	**135,300**
Total [2]			**17.8**	**193,696**	**135,048**
Total [3]			**7.8**	**177,259**	**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 is not 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

13 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 is not reflected in market prices.

Cash deposits

At 31 March 2020, cash deposits represented £3m, 1.8% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2020	Balances at 31 March 2019	Balances at 31 March 2020
Held for investment purposes		**£000**	**£000**
Northern Trust Company - cash deposits	A2	580	1,324
The City of Edinburgh Council - treasury management	See below	3,070	-
		3,650	**1,324**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,741	1,599
Total cash		**5,391**	**2,923**

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

13 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 2020	Balances at 31 March 2019	Balances at 31 March 2020
Money market funds			
Deutsche Bank AG, London	Aaa-mf	129	192
Goldman Sachs	Aaa-mf	2	115
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	706	212
Bank call accounts			
Bank of Scotland	Aa3	473	44
Royal Bank of Scotland	A1	19	89
Notice accounts			
HSBC Bank PLC	Aa3	569	83
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa2	2,913	864
		4,811	**1,599**

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2020 was 'Aa2').

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

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

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

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 is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is 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.

14 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.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

15 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 £122m (2019 £135m). 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 is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2019	31 March 2020
	% p.a.	% p.a.
Inflation/pensions increase rate	2.5%	1.9%
Discount rate	2.4%	2.3%

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2016 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.75% p.a. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2019		31 March 2020	
	Male	Female	Male	Female
Current pensioners	22.4 years	24.8 years	22.4 years	24.8 years
Future pensioners (assumed to be currently 45)	24.8 years	27.8 years	24.8 years	27.8 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

16 Debtors

	31 March 2019	31 March 2020
	£000	£000
Sundry debtors	2	2
	2	**2**

17 Creditors

	31 March 2019	31 March 2020
	£000	£000
Benefits payable	73	31
Miscellaneous creditors and accrued expenses	1	2
	74	**33**

18 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 is 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 2019	31 March 2020
	£000	£000
Year end balance of holding account	10	130
	10	**130**

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 2020, the fund had an average investment balance of £2.5m (2019 £10.6m). Interest earned was £20k (2019 £74k).

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

18 Related party transactions (cont)

Governance

As at 31 March 2020, all members of the Pensions Committee, with the exception of Richard Lamont, and all members of the Pension Board, with the exception of Sharon Cowle, were members of the Lothian Pension Fund. One member of both the Pensions Committee and the Pension Board are 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.

During the period from 1 April 2019 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 2019	31 March 2020
	£000	£000
Short-term employee benefits	647	757
Post-employment benefits - employer pension contributions	111	140

Key management personnel employed by LPFE, had accrued pensions totalling £106,596 (1 April 2019: £120,245) and lump sums totalling £121,925 (1 April 2019: £132,375) at the end of the period.

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.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

18 Related party transactions (cont)

Year end balance on treasury management account

	31 March 2019	31 March 2020
	£000	£000
Held for investment purposes	3,070	-
Held for other purposes	1,741	1,599
	4,811	1,599

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 4 (page 135) 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 2020, the Fund was recharged £81k (2019 £70k) for the services of LPFE Limited staff.

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

19 Contingent assets/liabilities

Age Discrimination in Public Service Pension

On 13 May 2020, the Scottish Public Pensions Agency (SPPA) advised that:

> "In December 2018, the Court of Appeal found that the transitional protections introduced to the judicial and firefighters' schemes during the reform of public service pensions in 2015 discriminated on grounds of age. The UK Government sought permission to appeal this decision but this was not granted, and on 15 July 2019 the UK Government issued a written ministerial statement to confirm that as transitional protection was provided in all public service schemes, the ruling had implications for all those schemes, including the Scottish Local Government Pension Scheme (SLGPS).
>
> "Details of the Court of Appeal ruling, hereafter referred to as McCloud, are available...
>
> "Whilst initial proposals to address the specific discrimination in the SLGPS have been shared with the scheme advisory board, there remains uncertainty around the timing and changes needed in light of McCloud."

The Fund's IAS26 reporting from its actuary, as disclosed in Note 23, takes into account the appeal decision. There remains significant uncertainty over the remedy to be applied and associated costs to Scottish LGPS funds.

Employer Cost Cap considerations

In the same communication of 13 May 2020, SPPA stated:

> "The reforms introduced to public service pensions from 1 April 2015 (or a year earlier in the case of the local government scheme in England and Wales) also included a new cost control mechanism, known as the employer cost cap.
>
> "The purpose of the mechanism was to introduce a way of sharing pension cost increases and savings between the employer (ultimately often the taxpayer) and scheme members...
>
> "The first cost cap valuation for LGPS Scotland was due to take place at 31 March 2017. As you are aware, GAD commenced this process however it has not yet been completed, as the cost cap element of scheme valuations was suspended by the UK Government in early 2019 pending the resolution of McCloud. In a written ministerial statement on 25 March 2020, the Economic Secretary to the Treasury outlined the UK Government's intention to provide an update on the cost cap mechanism alongside proposals to address McCloud.
>
> "We realise the challenges that actuaries face in considering the uncertainties in McCloud and the cost cap, particularly given the tight timescales for completing valuations. We regret that we are currently unable to suggest how provision might be made for any running of the cost cap process but hope to have more clarity in the next two months. We will write to administering authorities to provide an update at the earliest opportunity."

20 Contractual commitments

The Fund had no contractual commitments at the year end.

21 Impairment losses

Impairment losses have been identified during the year

SCOTTISH HOMES PENSION FUND ACTUARIAL STATEMENT FOR 2019/20

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. 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 March 2018, 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 eight years.

As the Fund was well ahead of its Target Funding Level at the 2017 valuation, it took the decision to derisk its investment strategy and now invests 100% of its assets 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 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £170.6 million, were sufficient to meet 104.7% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2017 valuation was £7.7 million.

The Guarantor's contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

SCOTTISH HOMES PENSION FUND ACTUARIAL STATEMENT FOR 2019/20

Full details of the methods and assumptions used are described in the 2017 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's assets at their market value.

The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	Friday, 31 March 17
Discount Rate	Bank of England nominal yield curve
Benefit increase assumption (CPI)	Bank of England implied (RPI) curve less 1.0% p.a.

SCOTTISH HOMES PENSION FUND ACTUARIAL STATEMENT FOR 2019/20

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 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.75% p.a.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	22.4	24.8
Future Pensioners *	24.8	27.8

**Aged 45 as at 31 March 2017*

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been positive asset returns over the three years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Laura McInroy FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB
Friday, 15 May 20

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 2019/20 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 2019/20 financial year and report on the net assets available to pay pension benefits as at 31 March 2020. 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.

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 the Fund 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.

ACCOUNTING POLICIES AND GENERAL NOTES

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.

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. The Fund 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."

ACCOUNTING POLICIES AND GENERAL NOTES

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.

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.

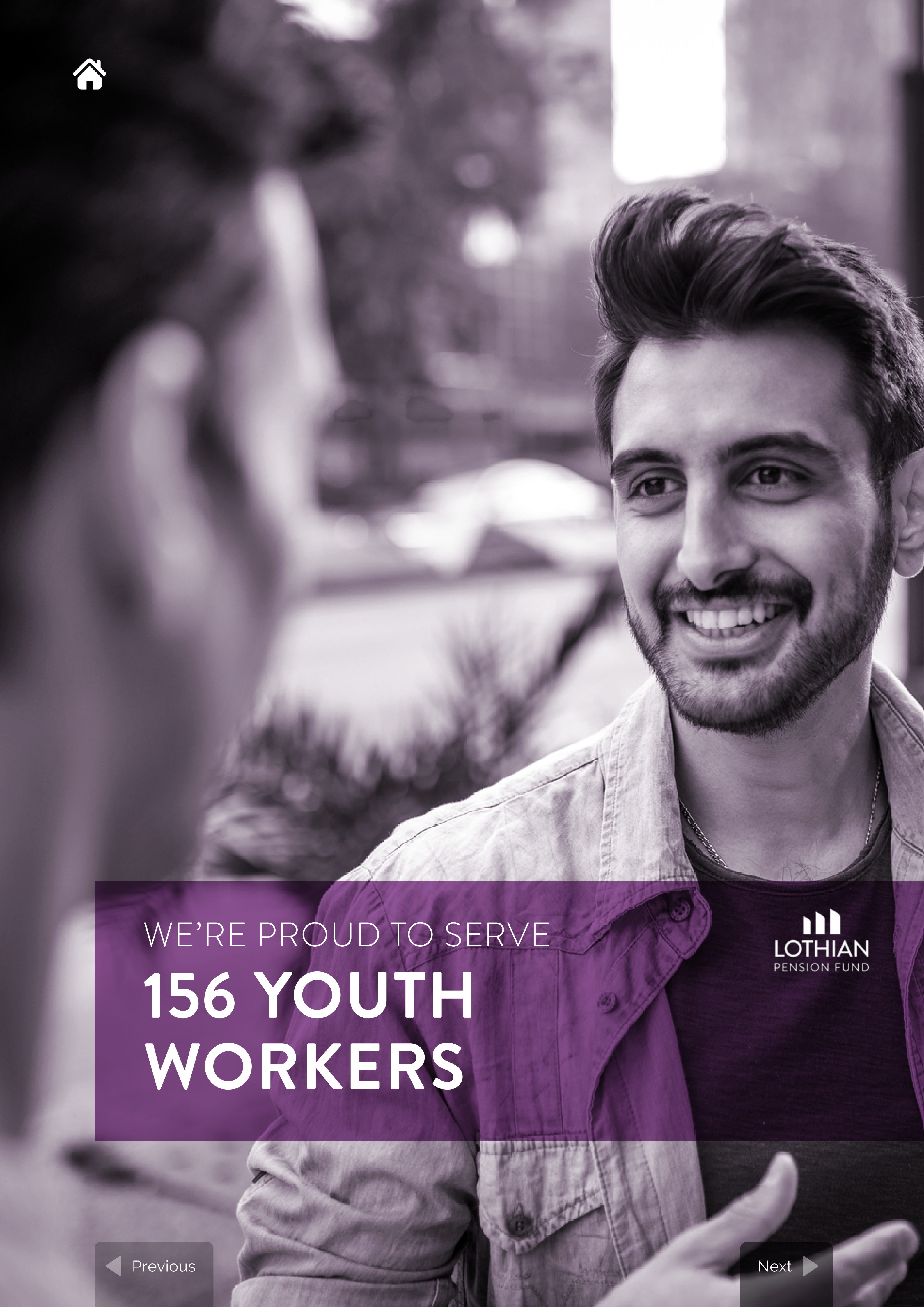
i) Operating lease

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 Standard Interpretations Committee (SIC) 15, subsequently endorsed by the International Accounting Standards Board (IASB), 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.



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ACCOUNTING POLICIES AND GENERAL NOTES

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. 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.

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 - Equities	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 / index linked gilts	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 John Symes-Thompson FRICS of independent valuers, CBRE Ltd in accordance with RICS Valuation – Global Standards 2017.	Existing lease terms and rentals. Independent market research. Nature of tenancies. Covenant strength for existing tenants. Assumed vacancy levels. Estimated rental growth. Discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market price
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 (2015)	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 consulted 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 2020.

Lothian Pension Fund	Assessed Valuation range (+ or -)	Value at 31 March 2020	Value on increase	Value on decrease
Unquoted		**£m**	**£m**	**£m**
Private Equity	30%	76.1	98.9	53.3
Infrastructure	12%	844.9	946.3	743.5
Timber	18%	124.0	146.3	101.7
Private Secured Loans	7.5%	205.0	220.4	189.6
Property	13%	461.0	520.9	401.1
		1,711.0	**1,932.8**	**1,489.2**

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.

ACCOUNTING POLICIES AND GENERAL NOTES

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 basis by the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS26, the Fund have 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 and Lothian Buses 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 are not 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 is not 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 are not 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.

ACCOUNTING POLICIES AND GENERAL NOTES

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.

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 2020/21 Code:

The Code requires implementation from 1 April 2020 and there's therefore no impact on the 2019/20 financial statements.

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan amendment, curtailment or settlement.

The amendments are generally minor or principally providing clarification. Overall, these new or amended standards are not 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 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 2019 was £1,395.1m (2018 £1,250.0m).

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 2020 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 2020	Approx Increase in liabilities %	Approx monetary amount £m
0.5% decrease in the real discount rate	11	950
1 year increase in member life expectancy	4	382
0.5% increase in salary increase rate	2	188
0.5% increase in pensions increase rate	9	746

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 2020	Approx Increase in liabilities %	Approx monetary amount £m
0.5% decrease in the real discount rate	5	7
1 year increase in member life expectancy	4	6
0.5% increase in pensions increase rate	5	7

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 will not change the reported net change in the Fund for the year.

COLLEAGUE PROFILE Susan Macfarlane, Communications Business Partner

Susan joined LPF in September 2019 as our Communications Business Partner. As well as being our brand ambassador, Susan's responsible for shaping and delivering our internal and external communications strategy to ensure that our colleagues and stakeholders are kept up to date with what's going on at LPF. Susan says:

"I'm really proud to work for LPF as everyone is so positive and driven to deliver for our members. I enjoy being able to help shape our culture and share the great work we're doing at LPF with our members and stakeholders."

ACCOUNTING POLICIES AND GENERAL NOTES

d) Property Valuations - Novel Coronavirus (COVID-19) Outbreak

Uncertainties

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, CBRE (the Fund property valuer) consider that the Fund can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The current response to COVID-19 means that CBRE are faced with an unprecedented set of circumstances on which to base a judgement.

CBRE's valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – are attached to the valuation of the Funds' investment property assets than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, CBRE have recommend that the valuation of the Funds' properties should be kept under frequent review.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above doesn't mean that the valuation cannot be relied on. Rather, the phrase is used to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is a disclosure, not a disclaimer.

Effect if actual results differ from assumptions

There's 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 at the time the asset is sold.

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.

Hugh Dunn
Head of Finance
The City of Edinburgh Council
29 September 2020

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Chief Finance Officer, Lothian Pension Fund

The Chief Finance Officer, Lothian Pension Fund, 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 2019/20 (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 2020.

In preparing this statement of accounts, the Chief Finance Officer, Lothian Pension Fund, has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice

The Chief Finance Officer, Lothian Pension Fund, has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

John Burns, Fcma CGMA PgC
Chief Finance Officer
Lothian Pension Fund
29 September 2020

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Independent auditor's report to the members of City of Edinburgh Council as administering authority for Lothian Pension Fund and Scottish Homes Pension Fund and the Accounts Commission.

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Lothian Pension Fund and its group and Scottish Homes Pension Fund (the funds) for the year ended 31 March 2020 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, the 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- Give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the funds during the year ended 31 March 2020 and of the amount and disposition at that date of their assets and liabilities;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 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 31 May 2016. The period of total uninterrupted appointment is four years. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Emphasis of matter – investment property valuations

We draw attention to Accounting policies and general notes note 5(d) "Property Valuations - Novel Coronavirus (COVID-19) Outbreak" which describes the effects of a material uncertainty, caused by COVID-19, on the investment property valuation report. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions 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 deemed inappropriate.

The City of Edinburgh Council is responsible for overseeing the financial reporting process.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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 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.

Other information in the annual report

The Chief Finance Officer is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and our auditor's report thereon. 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 matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in 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 there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Report on other requirements
Opinions on matters prescribed by the Accounts Commission

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;

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

- 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.

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 accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, 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 120 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
29 September 2020

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. This responsibility is for two separate funds: the Lothian Pension Fund and Scottish Homes Pension Fund (the Fund). The Lothian Pension Fund group comprises the investment and pensions team employed by LPFE Limited (LPFE) supporting the Council in its separate statutory capacity as the administering authority of the Fund (Administering Authority) and LPFI Limited (LPFI), the Group's regulated investment vehicle (together the LPF Group).

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 role of Administering Authority is carried out via:

- the Pensions Committee and the Pensions Audit Sub-Committee
- the Pension Board
- the Joint Investment Strategy Panel; and
- the LPF Group.

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. The Pensions Committee oversees the operational administration of the Fund by the LPF Group.

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 focused 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 framework also applies to any subsidiary companies which are members of the LPF Group, namely LPFI and LPFE. 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's ongoing compliance with its governance framework and regulatory obligations is monitored on an ongoing basis by the Pensions Committee, the Audit Sub-Committee and the Pension Board and the respective boards of LPFI and LPFE.

The Administering Authority has certain oversight functions and procedures which apply to the oversight of the LPF Group. 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 assurance stack.

The LPF Group also 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.

ANNUAL GOVERNANCE STATEMENT

The relevant key elements of the LPF Group and the Fund governance framework within the Administering Authority, include:

- Identifying the objectives of the Fund in the Funding Strategy Statement, Statement of Investment Principles, Pension Administration Strategy and Service Plan
- Since April 2015, The Pensions Regulator has been responsible for setting standards of governance and administration for the Local Government Pension Scheme. The LPF Group has taken steps to fully integrate compliance with these standards within the overall governance framework
- A systematic approach to monitoring service performance by the Pensions Committee, Pensions Audit Sub-Committee, Pension Board (each including external stakeholder representation), Independent Professional Observer and senior officers
- A structured programme to ensure that Pensions Committee and Pension Board members have the required standard of knowledge and understanding of Local Government Pension Scheme matters
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Fund's Statement of Investment Principles
- Compliance with the CIPFA Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme
- With the exception of managed funds, unlisted investments and property, all investments are held under custody by a global custodian. The Fund benefits from the custodian's extensive internal control framework
- Benchmarking of services in terms of standards and cost against other pension funds
- LPFE and LPFI operating within their respective constitutional documentation and the relevant companies' regulations
- LPFI operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority's rules, regulations and guidance
- For LPF Group and Fund matters, the Pensions Committee, Pensions Audit Sub-Committee and Pension Board are responsible for scrutiny and challenge and a quarterly risk reporting process is in place to ensure full consideration of such matters
- Officers of the LPF Group are managed separately through the processes and procedures of LPFE, overseen by its board of directors, with terms and conditions and a human resources performance review and management strategy tailored to the express needs of the Fund and their stakeholders
- The directors of LPFE and LPFI have obligations to report to the Pensions Committee as the governing body for the Fund and the Administering Authority as the sole shareholder. In addition, the board and colleagues of LPFI are each individually regulated by the Financial Conduct Authority and so bound by the associated Principles and Standards of governance best practice.
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ANNUAL GOVERNANCE STATEMENT

Elements of the governance framework of the Council that are relevant to the LPF Group and Fund include:

- The Council is embedding a culture of commercial excellence to ensure that its services always deliver Best Value. That is ongoing and seeks to improve standards in buying practices and processes across the Council including, to the extent applicable, the LPF Group and the Fund which bear the cost of its operation and administration
- The submission of reports, findings and recommendations from the external auditor, other inspectorates and internal audit, to the Pensions Committee, Pensions Audit Sub-Committee for all matters affecting the LPF Group and Fund and, in certain circumstances strictly for Council wide oversight purposes, the Corporate Leadership Team, Governance, Risk and Best Value Committee and wider Council
- The roles and responsibilities of Elected Members and Officers are defined in LPF Procedural Standing Orders, Council Committee Terms of Reference and Delegated Functions, Contract Standing Orders, Scheme of Delegation to Officers, the Member/officer protocol and Financial Regulations. These are subject to annual review
- The Chief Executive Officer has overall accountability to Council, for all aspects of operational management and overall responsibility for ensuring the continued development and improvement of systems and processes concerned with ensuring appropriate direction, accountability and control
- The Section 95 Officer has overall responsibility for ensuring appropriate advice is given to the Council and the LPF Group on all financial matters, keeping proper financial records of accounts and maintaining an effective system of internal financial control. For the Fund, the Section 95 officer responsibility has been sub-delegated to the Chief Finance Officer of the LPF Group
- The Chief Internal Auditor has overall responsibility to review, appraise and report to management and the Governance, Risk and Best Value Committee, and for matters relating to the LPF Group and Fund to the Pensions Committee and Pensions Audit Sub-Committee, on the adequacy of relevant internal control and corporate governance arrangements and on risks relating to approved policies, programmes and projects
- The Council's Democracy, Governance and Resilience Manager, reporting to the Head of Strategy and Communications, has responsibility for advising the Council on corporate governance arrangements and supports the LPF Group on certain aspects of its governance arrangements
- The risk management policy and framework set out the responsibilities of elected members, Governance, Risk and Best Value Committee, and for LPF Group and Fund matters the Pensions Committee and Pensions Audit Sub-Committee, management and colleagues for the identification and management of risks to corporate and service-related priorities:
    - The Resources and Chief Executive's Risk Register and Council Risk Register all identify risks and proposed treatment and actions. These registers are regularly reviewed, updated and reported to the Corporate Leadership Team, which reviews Council-wide risk and reports to the Governance, Risk and Best Value Committee for scrutiny and challenge

ANNUAL GOVERNANCE STATEMENT

- Resilience and business continuity plans are in place for all essential Council services. These set out arrangements for continuing to deliver essential services in the event of an emergency or other disruption
- An Elected Members remuneration and expenses scheme is in place and is consistent with the Scottish Government's 'Councillors Remuneration: allowances and expenses – Guidance'. Information on the amounts and composition of elected members salaries, allowances and expenses is published on the Council's website
- The Council's Democracy, Governance and Resilience Senior Manager ensures that induction training on roles and responsibilities, and ongoing development opportunities, are provided for Elected Members. A separate policy on Pensions Committee and Pension Board member training has been adopted and is overseen by the LPF Group's officers
- Mandatory training for Councillors newly appointed to the Pensions Committee is programmed within the Induction and training programme for Elected Members. This focuses on governance, investment management and strategy and how the LPF Group and Fund work. Committee members are reminded of the requirement to undertake a minimum of 21 hours of training per financial year to fulfil their role on the Pensions Committee
- The LPF Code of Conduct and CEC Code of Conduct set out the standards of behaviour expected from Elected Members and officers, are in place
- The Employee Code of Conduct, Anti Bribery Policy and Policy on Fraud Prevention set out the responsibilities of officers and Elected Members in relation to fraud and corruption and are reinforced by the LPF Code of Conduct and Councillors' Code of Conduct, the Code of Ethical Standards and the Financial Regulations. The LPF Group has adapted policies to take into account the specific nature of its business and regulation
- The Whistleblowing policy provides a process for disclosure in the public interest about the Council and its activities by officers, Elected Members and others. The LPF Group has a separate and adapted policy to take into account the specific nature of its business and regulation

ANNUAL GOVERNANCE STATEMENT

A significant element of the governance framework is the system of internal controls, which is based on an ongoing process to identify and prioritise risks to the achievement of the Council's objectives, including those relevant to the LPG Group and Fund. Following the establishment of the wholly-owned subsidiary companies, LPFE and LPFI, the Council continues to have appropriate assurance processes and procedures in relation to the responsible officers involved in the administration of those companies and so the wider LPF Group administering the Fund.

Review of Effectiveness

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Governance and Democratic Services Manager has reviewed the effectiveness of the Code.

The Chief Internal Auditor has also provided an assurance statement on the effectiveness of the system of internal control. The opinion in the assurance statement states: "Internal Audit considers that the LPF control environment and governance and risk management frameworks are generally adequate but with enhancements required and is therefore reporting a 'amber' rated opinion, with our assessment towards the middle of this category."

In compliance with standard accounting practice, the Head of Finance, of the City of Edinburgh Council has provided the Chief Executive Officer with a statement of the effectiveness of the Group's internal financial control system for the year ended 31st March 2020. It's the Head of Finance's opinion that: ". . . although a degree of assurance can be placed upon the adequacy and effectiveness of the Group's systems of internal financial control, further improvements, including embedding of actions taken in response to previous recommendations, are still required.

"In this context, I would particularly highlight improvements in train to address a number of systemic weaknesses in respect of payroll-related controls, including those to address historic, and prevent recurring, overpayments."

The Chief Finance Officer of the LPF Group has provided a statement of the effectiveness of the internal financial control system for the year ended 31st March 2020 for the Fund. It is the Chief Finance Officer's opinion "that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control for the LPF Group in administering the Lothian Pension Fund and Scottish Homes Pension Fund."

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 2019 to 31 March 2020 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 new human resources strategy specific to LPF Group's requirements and also implement a new learning management system and prioritise 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 ensuring sufficient engagement with colleagues and in particular in light of the prevailing circumstances of the COVID-19 pandemic and the Fund's Digital Strategy and office arrangements
- Digital strategy: To progress the Fund's Digital Strategy and most immediately complete the appointment of a new managed service ICT provider for the Fund
- 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
- 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 by the City of Edinburgh Council is supported in a manner consistent with these duties.

ANNUAL GOVERNANCE STATEMENT

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.

Andrew Kerr
Chief Executive Officer
The City of Edinburgh Council
29 September 2020

Dr Stephen S Moir
Executive Director of Resources
The City of Edinburgh Council
29 September 2020

Doug Heron
Chief Executive Officer
Lothian Pension Fund
29 September 2020

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 2020 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.
	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 delegated to the Executive Director of Resources who then delegates to the Head of Finance, 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 on 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).	✔	An Independent Professional Observer was appointed in March 2013 to help Committee scrutinize advice. This contract expired in February 2018 and a new Observer was appointed in August 2018.

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 7 February 2017 and LPFE on 19 March 2018. A further non-executive director is expected to be appointed to both boards in Q3 2020. 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) will be required to be read and signed by elected and non-elected members prior to their appointment and signed by existing members by June 2020.

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. Due to the COVID-19 pandemic the Pension Committee met three times during the year as the March Committee was cancelled.
	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. The LPFE board now meet five time a year (in February, May, August, October and December) and the LPFI board at least quarterly.
	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 on the Council's website and 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 holds surgeries ahead of Committee 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.

Andrew Kerr
Chief Executive Officer
The City of Edinburgh Council
29 September 2020

Dr Stephen S Moir
Executive Director of Resources
The City of Edinburgh Council
29 September 2020

Doug Heron
Chief Executive Officer
Lothian Pension Fund
29 September 2020

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 the 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 the Fund. 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 February to 31 January 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. Payment one for assessment year 1 February 2019 to 31 January 2020 and payment two for assessment year 1 February 2018 to 31 January 2019 were made in January 2020.

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.

REMUNERATION REPORT

In accordance with IAS 19, therefore, a liability has been raised as at 31 March 2020 for the two months of service which the employees have delivered with regards to the remaining vested payments in the scheme.

This obligation of LPF to make payments as a result of colleague service delivered up to 31 March 2020 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	2018/19	2019/20	Remuneration Bands	2018/19	2019/20
£50,000 - £54,999	1	1	£105,000 - £109,999	2	2
£55,000 - £59,999	3	1	£110,000 - £114,999	-	1
£60,000 - £64,999	1	1	£115,000 - £119,999	-	4
£65,000 - £69,999	-	1	£120,000 - £124,999	-	-
£70,000 - £74,999	-	1	£125,000 - £129,999	1	-
£75,000 - £79,999	1	-	£130,000 - £134,999	4	-
£80,000 - £84,999	1	-	£135,000 - £139,999	-	1
£85,000 - £89,999	-	1	£140,000 - £144,999	-	-
£90,000 - £94,999	-	-	£145,000 - £149,999	-	-
£95,000 - £99,999	1	-	£150,000 - £154,999	-	-
£100,000 - £104,999	2	-	£155,000 - £159,999	-	5
			Total No. of Employees	**17**	**19**

REMUNERATION REPORT

EMPLOYEES REMUNERATION

The remuneration paid to the Fund's senior employees is as follows:

Name and Post Title	Total Remuneration 2018/19 £000	Salary, Fees and Allowances £000	Variable Remuneration £000	Total Remuneration 2019/20 £000
Doug Heron, Chief Executive Officer (from February 2019)	18	111	25	136
Bruce Miller, Chief Investment Officer	132	109	40	149
Struan Fairbairn, Chief Risk Officer (Head of Legal, Risk and Compliance)	100	85	31	115
John Burns, Chief Finance Officer	102	84	30	115
Helen Honeyman, Head of People and Communications (from January 2020)	-	14	-	14
Total	**352**	**403**	**126**	**529**

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.

The remuneration paid to our employees whose remuneration during the year exceeded £150,000 is as follows:

Name and Post Title	Total Remuneration 2018/19 £000	Salary, Fees and Allowances £000	Variable Remuneration £000	Total Remuneration 2019/20 £000
Andrew Imrie, Portfolio Manager	133	108	46	154
Stewart Piotrowicz, Portfolio Manager	132	106	46	152
Jeffrey Saunders, Portfolio Manager	132	102	45	147
Ian Wagstaff, Portfolio Manager	132	106	46	152
Total	**529**	**422**	**183**	**605**

REMUNERATION REPORT

Senior officers of the City of Edinburgh Council are also fully remunerated via the Council and no additional remuneration is paid by the Fund. 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 2020 remain in the company's employment is as follows:

	Payable January 2021		Payable January 2022
	2019 Payment 3	2020 Payment 2	2020 Payment 3
	£000	£000	£000
Senior Employee Variable Remuneration	33	50	50
Portfolio Manager Variable Remuneration	125	110	110
Employer National Insurance Contribution	22	22	22
Total	**180**	**182**	**182**

Colleague Pension Entitlement

Pension benefits for colleagues are provided through the Local Government Pension Scheme.

For colleagues the Local Government Pension Scheme became a career average pay scheme 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).

REMUNERATION REPORT

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 2019/20 were as follows:

Pensionable Pay (2019/2020)	Rate (%)
On earnings up to and including £21,800 (2018/2019 £21,300)	5.5%
On earnings above £21,800 and up to 26,700 (2018/2019 £21,300 to £26,100)	7.25%
On earnings above £26,700 and up to £36,600 (2018/2019 £26,100 to £35,700)	8.5%
On earnings above £36,600 and up to £48,800 (2018/2019 £35,700 to £47,600)	9.5%
On earnings of £48,800 and above (2018/2019 £47,600)	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 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	
	2018/19	2019/20		As at 31 March 2020	Increase from 31 March 2019
Name and post title	£000	£000		£000	£000
Doug Heron, Chief Executive Officer (from February 2019)	4	32	Pension	-	-
			Lump Sum		
Bruce Miller, Chief Investment Officer	27	32	Pension	32	3
			Lump Sum	30	2
Struan Fairbairn, Chief Risk Officer (Head of Legal, Risk and Compliance)	21	25	Pension	12	2
			Lump Sum	-	-
John Burns, Chief Finance Officer	21	25	Pension	44	2
			Lump Sum	79	1
Helen Honeyman, Head of People and Communications (from January 2020)	-	4	Pension	-	-
			Lump Sum	-	-
Total	**73**	**118**			

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	
	2018/19	2019/20		As at 31 March 2020	Increase from 31 March 2019
Name and post title	£000	£000		£000	£000
Andrew Imrie, Portfolio Manager	26	31	Pension	26	3
			Lump Sum	16	1
Stewart Piotrowicz, Portfolio Manager	26	31	Pension	20	3
			Lump Sum	-	-
Jeffrey Saunders, Portfolio Manager	-	-	Pension	-	-
			Lump Sum	-	-
Ian Wagstaff, Portfolio Manager	26	31	Pension	18	3
			Lump Sum	-	-
Total	**78**	**93**			

REMUNERATION REPORT

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 2019/20 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.

Andrew Kerr
Chief Executive Officer
The City of Edinburgh Council
29 September 2020

Dr Stephen S Moir
Executive Director of Resources
The City of Edinburgh Council
29 September 2020

John Burns
Chief Finance Officer
Lothian Pension Fund
29 September 2020

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
- Pension Administration Strategy
- Communications Strategy
- Funding Strategy Statement
- Service Plan
- Training and Attendance policy

Fund advisers

Actuaries:	Hymans Robertson LLP, Exchange Place One, 1 Semple Street, Edinburgh, EH3 8BL
Bankers:	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh, EH2 2YB
Strategic advisers:	Gordon Bagot and Scott Jamieson
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 Prudential plc, 1 Angel Court, London, EC2R 7AG
Property valuations:	CB Richard Ellis Limited, St Martin's Court, 10 Paternoster Row, London, EC4M 7HP
Property Management and Property Fund Accounting:	JLL, 40 Bank Street Canary Wharf | London E14 5EG
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 tape, in Braille, large print and various computer formats on request. Please contact the Interpretation and Translation Service (ITS) on 0131 242 8181 and quote reference number 00819. The ITS can also give information on community language translations.

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

Atria One, 144 Morrison St,
Edinburgh EH3 8EX

Phone: 0131 529 4638
Email: pensions@lpf.org.uk
Web: www.lpf.org.uk

LPFE Limited

Financial Statements

For the year ended 31 March 2020

Registered number SC497543

LPFE LIMITED

Financial statements

For the year ended 31 March 2020

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LPFE LIMITED

Company information

Board of Directors:	***Chairman***
	Stephen Moir
	Executive Directors
	Hugh Dunn Alasdair Rankin Katy Miller Douglas Heron
	Non-executive Director
	Leslie Robb
Company Secretary:	Struan Fairbairn
Registered office	4th Floor Saltire Court 20 Castle Terrace Edinburgh Lothian EH1 2EN
Bankers:	The Royal Bank of Scotland plc
Auditor:	Scott-Moncrieff Audit Services Chartered Accountants Exchange Place 3 Semple Street Edinburgh EH3 8BL

LPFE LIMITED

Directors' Report

For the year ended 31 March 2020

The directors present their report and audited financial statements for the year ending 31 March 2020.

Principal activity

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, dividends and mutual trading surplus

The loss for the year after tax was £644,262 (2019 - £306,388 loss) and after allowing for items included under "Other comprehensive income" a gain of £185,288 (2019 - £473,408 loss). 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 an addition to costs of £54,865 (2019 - £69,314) in respect of accrued holiday and variable pay and £721,000 (2019 - £326,000) for adjustments to pension costs under IAS19, the underlying trading profit is £131,583 (2019 - £88,926). The gains recognised under "Other comprehensive income" amounting to £829,550 (2019: £167,020 additional costs) all relates to further adjustments required by IAS19 and the related deferred tax 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 £131,583 (2019: £88,926), 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.

Business review

The company is wholly owned by LPF and has entered into a shareholder agreement with LPF to appropriately address certain governance matters. The company also has a loan facility provided by LPF for the purpose of the provision of short-term working capital.

Staffing services are provided to LPF 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 the provision of staffing services to LPFI Limited (also wholly owned by LPF).

The company also has a secondment agreement with Falkirk Council to provide legal staff to assist with certain aspects of the administration of the Falkirk Council Pension Fund as part of a mutually beneficial collaboration between those LGPS funds.

Future prospects

The company's future prospects are primarily linked to the needs of LPF. The company is securely funded by LPF, which means that it is in a position to adapt to any future staffing requirements.

Given the nature of the activities of LPFE and its role in the administration of Lothian Pension Fund, the directors do not expect any significant impact on the operation of the company as a result the COVID19 pandemic. At the year end all staff have been able to work from home and operations have continued as normal. The company's business model runs on recharge of staff costs therefore enabling staff to work from home has ensured that activities are not interrupted by the on-going effects of the pandemic

The directors are of the view that the current "Brexit" uncertainty and its outcome is unlikely to directly impact the prospects of the company. This is because LPF will still have a need for investment management and pension administration services.

Directors

The directors who served during the period were:

Hugh Dunn
Alasdair Rankin
Katy Miller
Stephen Moir
Leslie Robb
Douglas Heron

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 its results for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 (continued)

For the year ended 31 March 2020

Disclosure of information to auditor

As far as each of the directors at the time the report is approved are aware:

a) there is no relevant information of which the company's auditor is unaware, and
b) the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of the information.

Auditor

The appointed auditor Scott-Moncrieff tendered their resignation during 2019 and were replaced by Scott Moncrieff Audit Services. Scott Moncrieff Audit Services have expressed their willingness to continue in office as auditor.

Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:

[redacted]

Stephen Moir
Chairman

Date: 26 June 2020

LPFE LIMITED

Independent Auditor's Report to the Members of LPFE Limited

For the year ended 31 March 2020

Opinion

We have audited the financial statements of LPFE Limited ('the company') for the year ended 31 March 2020 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 United Kingdom, 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 audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Opinion on Other Matter(s) Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the 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 where 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 exempt from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, 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 for the audit of the financial statements is located on the Financial Reporting Councils website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

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.

[redacted]

Nick Bennett, Senior Statutory Auditor
For and on behalf of Scott-Moncrieff Audit Services, Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: 26 June 2020

LPFE LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2020

	Note	2020 £	2019 £
Continuing Operations			
Revenue	1e	4,914,525	3,915,842
Gross profit		4,914,525	3,915,842
Administrative expenses		(5,505,971)	(4,155,957)
Profit/(Loss) from operations	2	(591,446)	(240,115)
Finance costs	3	(64,133)	(51,434)
Profit/(Loss) before tax		(655,579)	(291,549)
Corporation tax (charge)/credit	4	11,317	(14,839)
Profit/(Loss) for the year		(644,262)	(306,388)
Other comprehensive income:			
Those that are not recyclable net of tax:			
Actuarial gain/(loss) on retirement benefit obligation	15	798,000	(268,000)
Deferred tax charge thereon	10	31,550	100,980
Total comprehensive gain/(loss) for the year		185,288	(473,408)

The accompanying notes on pages 12 to 30 form part of these financial statements

LPFE LIMITED

Statement of Financial Position

As at 31 March 2020

	Note	As at 31 March 2020 £	As at 31 March 2019 £
Non-current assets			
Deferred tax asset	10	424,080	392,530
Total non-current assets		492,080	392,530
Current assets			
Trade and other receivables	7	627,406	396,240
Cash and cash equivalents	8	196,799	213,773
Total current assets		824,205	610,013
Total assets		1,248,285	1,002,543
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Share capital	11	1	1
Retained earnings	12	(1,680,809)	(1,866,097)
		(1,680,808)	(1,866,096)
Liabilities			
Non-current liabilities			
Retirement benefits obligation	15	2,232,000	2,309,000
Trade and other payables	9	14,533	12,551
Total non-current liabilities		2,246,533	2,321,551
Current liabilities			
Trade and other payables	9	682,560	547,088
Total current liabilities		682,560	547,088
Total liabilities		2,929,093	2,868,639
Total equity and liabilities		1,248,285	1,002,543

The financial statements were authorised for issue by the Board of Directors on 26 June 2020 and were signed on its [redacted]

Stephen Moir
Chairman

Registered number: SC497543

The accompanying notes on pages 12 to 30 form part of these financial statements

LPFE Limited

Statement of Changes in Equity

As at 31 March 2020

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2018		1	(1,392,689)	(1,392,688)
Comprehensive income				
Loss for the year		-	(306,388)	(306,388)
Other comprehensive income				
Actuarial gains on retirement benefit obligation in year	15	-	(268,000)	(268,000)
Deferred tax on retirement benefit obligation	10	-	100,980	100,980
Balance at 31 March 2019		1	(1,866,097)	(1,866,096)

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2019		1	(1,866,097)	(1,866,096)
Comprehensive income				
Profit/(Loss) for the year		-	(644,262)	(644,262)
Other comprehensive income				
Actuarial gains on retirement benefit obligation in year	15	-	798,000	798,000
Deferred tax on retirement benefit obligation	10	-	31,550	31,550
Balance at 31 March 2020		1	(1,680,809)	(1,680,808)

The accompanying notes on pages 12 to 30 form part of these financial statements

LPFE LIMITED

Statement of Cash Flows

For the year ended 31 March 2020

	2020 £	2019 £
Cash flow from operating activities		
Loss for the year	(644,262)	(306,388)
Adjustments for:		
Defined benefit pension – current service cost	1,451,000	843,000
Defined benefit pension – employer contribution	(792,000)	(567,000)
Defined benefit pension – finance costs	62,000	50,000
Other finance costs	2,133	1,434
Corporation tax (credit)/charge	(11,317)	14,839
Changes in assets and liabilities:		
Increase in receivables and other financial assets	(219,024)	(55,574)
Increase in payables	152,042	234,112
Cash flows from operations	572	214,423
Interest paid	(1,882)	(845)
Corporation tax paid	(15,664)	215
Net cash flows from operating activities	(16,974)	213,793
Cash flow from investing activities	-	-
Net cash flows from investing activities	-	-
Cash flow from financing activities		
Movement in loan facility	-	(10,470)
Net cash flows from financing activities	-	(10,470)
Net increase/(decrease) in cash and cash equivalents	(16,974)	203,323
Cash and cash equivalents at beginning of year	213,773	10,450
Cash and cash equivalents at end of year	196,799	213,773
Cash at bank and in hand	196,799	213,773

The accompanying notes on pages 12 to 30 form part of these financial statements

1. Statement of significant accounting policies

LPFE Limited ('the company') is a limited company incorporated in Scotland. The address of its registered office and principal place of business are disclosed on page 1. The principal activities of the company are described within the directors' report on pages 2 to 4.

The financial statements of LPFE Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRIC Interpretation and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in uniformity with IFRS require the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

Adoption of new and revised standards

The following new and amended IFRSs became applicable to annual reporting periods beginning on or after 1 January 2019, but are either not applicable or have no material impact on the financial statements;

- IFRS 16 Leases
- IAS 12 Income Taxes
- IFRIC 23 Uncertainty over Income Tax Treatments

Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 December 2019, and with potential effect.

International Accounting Standards and Interpretations	Effective for periods beginning on or after
IFRS 3, Amendments to IFRS 3 – definition of a business	1 January 2020
IAS 1 and IAS 8, Amendments to IAS 1 and IAS 8 on the definition of material	1 January 2020
Conceptual Framework, Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17, Insurance Contracts	1 January 2021

The Directors have reviewed the requirements of the new standards and interpretations listed above and they are either not applicable or not expected to have a material impact on the Group financial statements in the period of initial application.

1. Statement of significant accounting policies (continued)

Basis of preparation

The financial statements are presented in Sterling (£) as that is the company's functional currency and the currency in which the majority of the company's transactions are denominated. The financial statements have been prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

a. Going concern

The directors are of the opinion that the company has adequate resources to enable it to undertake its planned activities for a period of at least one year from the date that the financial statements are approved.

b. Current and deferred income tax

The company is a mutual trader and is therefore not liable to corporation tax on surpluses generated from mutual trade. The tax charge for the period is based on the profit for the year from non-mutual trade, adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet 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 income 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.

1. Statement of significant accounting policies (continued)

Basis of preparation (continued)

b. Current and deferred income tax (continued)

Deferred income tax assets are recognised to the extent that it is 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.

c. Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of the asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

d. Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and is net of bank overdrafts.

e. 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. Statement of significant accounting policies (continued)

Basis of preparation (continued)

f. Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. For receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

g. Share capital

Ordinary shares are classified as equity.

h. Employee benefits

Lothian Pension Fund
The company contributes to a defined benefits scheme operated on behalf of its employees.

The employees of LPFE Limited participate in the Lothian Pension Fund, which is part of the Local Government Pension Scheme in Scotland and is administered by the City of Edinburgh Council.

The current service cost for the period is charged to the statement of profit or loss and other comprehensive income. The assets of the scheme are held separately from those of the company in independently administered funds. The company has fully adopted the accounting principles as required by International Accounting Standard 19 – Employee Benefits.

The liability recognised in the balance sheet in respect of 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. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of 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 equity through other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

1. Statement of significant accounting policies (continued)

Basis of preparation (continued)

h. Employee benefits (continued)

Variable pay arrangements
The company has 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 each year. This award then vests over the following 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. In line with IAS19 the payment is recognised when made and the liability has been accrued accordingly for the services which the employees have delivered with regards to the second and third payments in the scheme.

i. Financial instruments

Financial assets and financial liabilities are recognised when the company has become party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the statement of profit or loss and other comprehensive income.

Trade payables
Trade payables are initially recognised at cost and subsequently at amortised cost using the effective interest method.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise.

Loans
All interest bearing loans and other borrowings are initially recorded at fair value, which represents the fair value of the consideration received, net of any issue costs associated with other borrowings. Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an amortised cost basis to the statement of comprehensive income using the effective interest method, being recognised in the statement of profit or loss and other comprehensive income over the term of such instruments at a constant rate on the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

1. Statement of significant accounting policies (continued)

Basis of preparation (continued)

j. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

k. Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Key estimates – defined benefit pension obligation

IAS 19 Employee Benefits, requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations and pension plan assets. These are mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover, expected return on plan assets and discount rates. Substantial changes from the assumptions listed in any one of these variables may significantly change the group's retirement benefit obligation and pension assets (see note 15 for further details).

2. Loss from operations

	2020	**2019**
	£	**£**
Loss from operations has been determined after deducting:		
Auditor's remuneration:		
Audit services	5,665	5,500
Non-Audit services	3,539	12,775

3. Finance costs

	2020	**2019**
	£	**£**
Loan interest payable to group entities (note 14)	2,133	1,434
Pension interest costs (note 15)	62,000	50,000
	64,133	51,434

4. Corporation tax charge/(credit)

	2020 £	2019 £
Current tax:		
Corporation tax charge/(credit)	-	14,839
Adjustments to prior periods	(11,317)	-
Tax on profits for the year	(11,317)	14,839

Corporation tax credit is calculated at 19% (2019: 19%) of the assessable profits for the year.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2020 £	2019 £
Loss for the year before taxation	(655,579)	(291,549)
Loss for the year at the effective rate of corporation tax of 19% (2019 – 19%)	(124,560)	(55,394)
Effects of:		
Mutual trade adjustment	94,060	66,407
Expenses not deductible for tax purposes	19,183	3,866
Trading losses carried back	11,317	-
Other adjustments	-	(40)
Adjustments to prior periods	(11,317)	-
Current tax charge/(credit)	(11,317)	14,839

5. Employee benefits expense

The average number of persons employed by the company (including directors) during the year was 69 (2019: 62).

The aggregate payroll costs were as follows:

	2020 £	2019 £
Wages, salaries and variable pay	3,503,577	2,817,553
Social security costs	393,601	305,148
Defined benefit pension - current service cost	792,189	843,000
	4,689,367	3,965,701

5. Employee benefits expense (continued)

Variable Pay

During the year, the company operated 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 was been made in January 2020. A liability has been raised at 31 March 2020 for the 2 months of service which the employees have delivered with regards to the second and third payments in the scheme.

Deferred variable pay

	2020	2019
	£	£
Brought forward	38,261	-
Current service cost	35,172	38,261
	73,433	38,261

	2020	2019
	£	£
Current liability	58,941	25,710
Non-current liability	14,492	12,551
	73,433	38,261

6. Directors' remuneration

Two (2019: three) directors received emoluments from the company during the period. The directors' emoluments for the period were as follows:

	2020	2019
	£	£
Aggregate emoluments	144,323	106,308
Employer pension contributions	32,496	23,397

One director had an accrued pension entitlement of £nil (2019: £22,829) and a lump sum entitlement of £nil (2019: £13,636) at the end of the year. The other director did not have any accrued pension provision provided by the company.

All other directors are employed by the City of Edinburgh Council.

7. Trade and other receivables

	2020	2019
	£	£
Trade receivables	4,969	53,577
Amounts due from group entities	607,214	333,412
Prepayments and accrued income	3,081	9,251
Corporation tax	12,142	-
	627,406	396,240

The directors consider the fair value of receivables to be in line with carrying values.

8. Cash and cash equivalents

	2020	2019
	£	£
Cash at bank and in hand	196,799	213,773

9. Trade and other payables

Current liabilities	2020	2019
	£	£
Trade payables	12,780	3,053
Accruals and deferred income	189,448	144,658
Social security and other taxes	473,106	383,751
Amounts due to group entities	1,038	787
Other creditors	6,188	-
Corporation tax	-	14,839
	682,560	547,088

Non-current liabilities	2020	2019
	£	£
Accruals and deferred income	14,533	12,551
	14,533	12,551

10. Deferred tax

	2020 £	2019 £
At 31 March 2019	392,530	291,550
Charge for the year to other comprehensive income	31,550	100,980
At 31 March 2020	424,080	392,530

The elements of deferred tax are as follows:

	2020 £	2019 £
Defined benefit pension scheme liability	424,080	392,530
	424,080	392,530

11. Share Capital

	2020 £	2019 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	1	1
	1	1

12. Reserves

	Retained Earnings £
At 31 March 2018	(1,392,689)
Loss for the year	(306,388)
Actuarial loss on retirement benefit obligation	(268,000)
Deferred tax on retirement benefit obligation	100,980
At 31 March 2019	(1,866,097)
Gain for the year	(644,262)
Actuarial gain on pension plan	798,000
Deferred tax on retirement benefit obligation	31,550
At 31 March 2020	(1,680,809)

13. Controlling interest

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

14. Related party transactions

	2020 £	2019 £
Lothian Pension Fund (pension fund administered by City of Edinburgh Council)		
Sale of services during the period	4,239,272	3,616,093
Receivables at the period end	339,109	222,584
Loan facility balance payable at the period end	-	-
Interest payable during the period	2,133	1,434
Interest payable but still accruing at the period end	1,038	787
LPFI Limited (company under common control)		
Sale of services during the period	662,521	119,279
Receivables at the period end	268,105	110,828
Balance receivable for group tax losses surrendered		-

The company has a loan facility agreement with Lothian Pension Fund for the purpose of the provision of short term working capital. The agreement was amended and restated on 3 June 2020. The current version 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 company returns any cash not immediately required and this can result in short periods when the company has returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Total compensation paid in relation to key management personnel during the period was as follows:

	2020 £	2019 £
Short-term employee benefits	765,569	647,017
Post-employment benefits - employer pension contributions	140,168	110,543
	905,737	757,560

Key management personnel had accrued pensions totalling £106,596 (2019: £120,245) and lump sums totalling £121,925 (2019: £132,375) at the end of the period.

15. Retirement benefits obligation

The Lothian Pension Fund, which is administered by the City of Edinburgh Council, is part of the Local Government Pension Scheme in Scotland. This is a pension scheme providing benefits based on pensionable pay, contributions being charged to the profit or loss so to spread the cost of pensions over employees' working lives. The contributions are determined by a qualified actuary.

The valuation of the pension fund is carried out triennially. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2020 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Scheme assets

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

	%	2020 £'000	%	2019 £'000
Equity Securities:				
Consumer	10%	1,036	11%	1,094
Manufacturing	14%	1,568	12%	1,265
Energy and Utilities	6%	693	8%	777
Financial Institutions	7%	707	8%	865
Health and Care	7%	752	5%	559
Information Technology	4%	470	3%	335
Other	7%	794	10%	1,003
Debt Securities:				
Corporate Bonds (investment grade)	5%	582	0%	-
Corporate Bonds (non-investment grade)	0%	-	0%	-
UK Government	6%	669	10%	1,045
Other	0%	-	0%	-
Private Equity:				
All	1%	95	1%	139
Real Estate				
UK Property	7%	712	7%	697
Overseas property	0%	10	0%	-
Investment Funds and Unit Trusts:				
Equities	1%	133	1%	102
Bonds	0%	47	3%	261
Infrastructure	14%	1,529	12%	1,277
Other	0%	-	0%	-
Derivatives:				
Foreign Exchange	0%	22	0%	3
Cash and Cash Equivalents:				
All	10%	1,052	8%	863
	100%	10,871	100%	10,285

15. Retirement benefits obligation (continued)

The amounts recognised in the statement of financial position are determined as follows:	2020 £'000	2019 £'000
Fair value of plan assets	10,871	10,285
Present value of scheme liabilities	(13,103)	(12,594)
Net pension liability	(2,232)	(2,309)

The movement in the defined benefit obligation over the year is as follows:

	2020 £'000	2019 £'000
Brought forward	12,594	10,367
Current service cost	1,451	843
Interest cost on obligation	332	294
Plan participants contributions	233	194
Benefits paid	(11)	(8)
Effects of business combinations	-	-
Actuarial losses/(gains) arising from changes in financial assumptions	(1,463)	904
Actuarial losses arising from other experience	(33)	-
Other actuarial gains	-	-
Balance at year end	13,103	12,594

The movement in the fair value of plan assets of the year is as follows:

	2020 £'000	2019 £'000
Brought forward	10,285	8,652
Benefits paid	-	(8)
Effect of business combinations	-	-
Interest income on plan assets	270	244
Contributions by employer	792	567
Contributions by member	233	194
Estimated benefits paid	(11)	-
Return on assets excluding amounts included in net interest	(698)	636
Balance at year end	10,871	10,285

15. Retirement benefits obligation (continued)

The amounts recognised in the Statement of Profit or Loss are as follows:

	2020 £'000	**2019 £'000**
Interest received on pension scheme assets	(270)	(244)
Interest cost on pension scheme liabilities	332	294
Finance cost	62	50
Current service cost	1,451	843
Effect of business combinations	-	-
	1,513	893

Amounts recognised in other comprehensive income:

	2020 £'000	**2019 £'000**
Actuarial (losses)/gains in the defined benefit obligation	1,463	(904)
Actuarial gains/(losses) in the fair value of defined benefit assets	(698)	636
Other experience	33	-
	798	(268)

The principal actuarial assumptions used in this valuation were:

	2020	**2019**
Inflation/pension increase rate	1.8%	2.4%
Salary increase rate	3.4%	4.1%
Discount rate	2.3%	2.5%

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 is 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 the opposite effect of a similar magnitude. There is 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.

15. Retirement benefits obligation (continued)

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

Change in assumption	**Approximate % increase to employer liability**		**Approximate increase to employer liability (£'000)**	
	2020	**2019**	**2020**	**2019**
0.5% decrease in real discount rate	13%	13%	1,767	1,666
0.5% increase in the salary increase rate	4%	4%	476	499
0.5% increase in the pension increase rate	10%	9%	1,250	1,118

Mortality rates:

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2012 model assuming current rates of improvements have peaked and will converge at to a long term rate of 1.25% p.a.

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

	Male	**Female**
Current pensioners	21.7	24.3
Future pensioners	24.7	27.5

Expected employer contributions to the benefit plans for the year ended 31 March 2021 are £881,000, based on a pensionable payroll cost of £2,895,000.

Estimation uncertainty

As a result of a ruling in The Court of Appeal (the McCloud judgement) in December 2018, which relates to age discrimination arising from public sector pension scheme transition arrangements, there is the potential for an impact on employer pension liabilities for LPF.

Included in the past service cost is an amount of £307,000 relating to the impact of McCloud judgement on the pension liability. This impact figure is very much an approximation. It remains true that this cannot be calculated with any accuracy, since the McCloud remedy has not yet been decided.

16. Financial Risk Management

The company's financial instruments consist mainly of deposits with banks and accounts receivable and payable. Financial instruments do not include prepayments, VAT, taxation, social security and deferred income.

The company did not enter into any transactions that would be classed derivative financial instruments during the period.

The totals for each category of financial instruments, measured in accordance with IAS 39 and detailed in the accounting policies, are as follows:

	2020	2019
	£	£
Financial Assets		
Cash and cash equivalents	196,799	213,773
Trade and other receivables	614,952	389,372
Total Financial Assets	811,751	603,145
Financial Liabilities		
Trade and other payables	217,799	161,049
Total Financial Liabilities	217,799	161,049

Financial Risk Management Policies

The company aims to manage its overall capital structure to ensure it continues to operate as a going concern. The company's capital structure represents the equity attributable to the shareholders of the company together with cash equivalents.

The Board is charged with the overall responsibility of establishing and monitoring the company's risk management policies and processes in order to identify, analyse and monitor the risks that are faced by the company. The company does not enter into or trade financial instruments for speculative purposes.

The main risks that the company is exposed to through its financial instruments are credit risk, liquidity risk and market risk. These are managed as follows:

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contractual obligations that could lead to a financial loss to the company.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. As at 31 March 2020 none of the company's financial assets were past due or impaired.

Credit risk is managed and reviewed regularly by senior management. It mainly arises from amounts owed by customers.

16. Financial Risk Management (continued)

Financial Risk Management Policies (continued)

a. Credit risk (continued)

The nature of the company's business means that it currently only has three customers. By far the largest customer is the City of Edinburgh Council and the company is securely funded by the Council. Falkirk Council is a smaller customer. The third customer is LPFI Limited which is a related party. Given the financial stature of both Councils and LPFI Limited the credit risk faced by the company is considered to be very small.

b. Liquidity Risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its financial obligations as they fall due. The company manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- ensuring that adequate unutilised borrowing facilities are maintained.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Financial liability and financial asset maturity analysis

	Note	Within 1 Year 2020 £	1 to 5 Years 2020 £	Total 2020 £
Financial liabilities due for payment				
Trade and other payables		(203,266)	(14,533)	(217,799)
Total expected outflows		(203,266)	(14,533)	(217,799)
Financial assets — cash flows realisable				
Cash and cash equivalents		196,799	-	196,799
Trade and other receivables		614,952	-	614,952
Total anticipated inflows		811,751	-	811,751
Net inflow of financial instruments		608,485	(14,533)	593,952

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows as presented in the table (to settle financial liabilities) reflects the earliest contractual settlement dates.

The company has been granted a £385,000 unsecured revolving loan facility by its parent, The City of Edinburgh Council. The ceiling of the facility has been set at a level to ensure sufficient cash is available to meet the company's short-term cash flow needs, should there be a delay in the City of Edinburgh Council settling invoices for seconded staff.

16. Financial Risk Management (continued)

Financial Risk Management Policies (continued)

c. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's financial position. The company has no direct exposure to movements in foreign exchange or equity prices, and has very little exposure to interest rate movements, due to the low level of borrowing. The company monitors this risk but the directors are of the opinion that it is very unlikely to have a significant effect on the company's financial position.

17. Movements in financing (assets)/liabilities arising from financing activities

	Current loans & borrowings
At 1 April 2019	10,470
Cash flows	
Financing loans from group companies repaid	10,470
At 31 March 2019	-

	Current loans & borrowings
At 1 April 2019	
Cash flows	-
Payment of group company financing loan	-
At 31 March 2020	-

18. Contingent Liabilities

The company's variable pay arrangements are described in note 5 above. In the event that all the staff involved in the arrangements at 31 January 2020 remain in the company's employment there is a contingent liability of £468,385 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.

LPFI Limited

Financial Statements

For the year ended 31 March 2020

Registered number SC497542

LPFI LIMITED

Financial statements

For the year ended 31 March 2020

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LPFI LIMITED

Company information

Board of Directors:	***Chairman***
	Hugh Dunn
	Executive Directors
	Struan Fairbairn John Burns William Bruce Miller Douglas Heron
	Non-executive Director
	Leslie Robb
Registered office:	4th Floor Saltire Court 20 Castle Terrace Edinburgh Lothian EH1 2EN
Bankers:	The Royal Bank of Scotland plc
Auditor:	Scott-Moncrieff Audit Services Exchange Place 3 Semple Street Edinburgh EH3 8BL

LPFI LIMITED

Directors' Report

For the year ended 31 March 2020

The directors present their report and audited financial statements for the year ended 31 March 2020.

Principal activity

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, dividends and mutual trading surplus

The profit for the year after tax was £11,860 (2019: £59,396). 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.

Business review

The company is wholly owned by LPF and has entered into a shareholder agreement with LPF to appropriately address certain governance matters. The company also has a loan facility provided by LPF for the provision of short-term working capital. The facility was amended and restated on 11 February 2020. The current version covers the period to 1 May 2023.

LPFI Limited does not employ staff directly. Staffing and business support services are provided to the company under separate intra-group agreements with LPFE Limited and LPF respectively. LPFE Limited is also wholly owned by LPF. The company provides certain investment services to LPF via an intra-group investment services agreement and has appropriate terms of engagement with its external collaborative partners.

HMRC has agreed that any profits arising from trade between the company and LPF will be covered by the "Mutual Trading" rules and so not subject to Corporation Tax.

The company was granted authorised status by the FCA on 24 June 2016. During the year the company provided investment advising and transaction arranging services in relation to a broad scope of matters. This was the first year that the company provided a range of investment advisory and arranging services to Falkirk Pension Fund and Fife pension Fund on a collaborative basis. This is the reason for the substantial increase in both revenue and administrative expenses.

On 3 April 2020, the FCA granted permission for the company to provide public market investment management services. This necessitated the company holding additional regulatory share capital with an additional £530,378 being issued to LPF in March 2020.

Future prospects

The company's prospects are linked to LPF's requirement for FCA regulated investment services and the LPF's strategy to work with other LGPS funds in the collaborative provision of such services. The company is securely funded by LPF which means that it can adapt to future trading needs.

During the year to 31 March 2021, the intention is to provide public market investment management services to interested clients.

Given the nature of the activities of LPFE and its role in the administration of Lothian Pension Fund, the directors do not expect any significant impact on the operation of the company as a result the COVID19 pandemic. At the year end all staff have been able to work from home and operations have continued as normal. The company's business model runs on recharge of staff costs therefore enabling staff to work from home has ensured that activities are not interrupted by the on-going effects of the pandemic.

The directors are of the view that the current "Brexit" uncertainty and its outcome is unlikely to directly impact the prospects of the company. This is because LPF and its external collaborative partners will still have a need for investment management services.

Directors

The directors who served during the year were:

Hugh Dunn
Struan Fairbairn
John Burns
William Bruce Miller
Leslie Robb
Douglas Heron

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 its results for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

Disclosure of information to auditor

As far as each of the directors at the time the report is approved are aware:

a) there is no relevant information of which the company's auditor is unaware, and
b) the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of the information.

Auditor

The appointed auditor Scott-Moncrieff tendered their resignation during 2019 and were replaced by Scott Moncrieff Audit Services. Scott Moncrieff Audit Services have expressed their willingness to continue in office as auditor.

Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:

[redacted]

Date: 16 June 2020

Hugh Dunn
Chairman

LPFI LIMITED

Independent Auditor's Report to the Members of LPFI Limited

For the year ended 31 March 2020

Opinion

We have audited the financial statements of LPFI Limited ("the company") for the year ended 31 March 2020 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 United Kingdom, including the FRC's Ethical Standard, and we have fulfilled our 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 audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the 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 where 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 exempt from the requirement to prepare a strategic report.

Responsibilities of the directors

As explained more fully in the directors' responsibilities statement set out on page 3, 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 for the audit of the financial statements is located on the Financial Reporting Councils website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

[redacted]

Nick Bennett, Senior Statutory Auditor
For and on behalf of Scott-Moncrieff Audit Services, Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: ......16 June......2020

LPFI LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2020

	Note	2020 £	2019 £
Continuing Operations			
Revenue	1e	915,296	256,939
Gross profit		915,296	256,939
Administrative expenses		(900,652)	(183,610)
Profit from operations	2	14,644	73,329
Finance costs	3	(2)	-
Profit before income tax expense		14,642	73,329
Corporation tax charge	4	(2,782)	(13,933)
Profit for the year		11,860	59,396
Other comprehensive income		---	-
Total comprehensive income for the year		11,860	59,396

The accompanying notes on pages 12 to 23 form part of these financial statements

LPFI LIMITED

Statement of Financial Position

As at 31 March 2020

	Note	As at 31 March 2020 £	As at 31 March 2019 £
Current assets			
Trade and other receivables	6	323,064	160,593
Cash and cash equivalents	7	673,127	126,624
Total current assets		996,191	287,217
Total assets		996,191	287,217
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Share capital	9	590,378	60,000
Retained earnings	10	106,307	94,447
		696,685	154,447
Liabilities			
Current liabilities			
Trade and other payables	8	299,506	132,770
Total current liabilities		299,506	132,770
Total equity and liabilities		996,191	287,217

The financial statements were authorised for issue by the Board of Directors on 16 June 2020 and were signed on its behalf by:

...........[redacted]

Hugh Dunn
Chairman [redacted]

Registered number: SC497542

The accompanying notes on pages 12 to 23 form part of these financial statements

LPFI LIMITED

Statement of Changes in Equity

As at 31 March 2020

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2018		60,000	35,051	95,051
Comprehensive income				
Profit for the year		-	59,396	59,396
Share movements				
Shares allotted during the year		-	-	-
Balance at 31 March 2019	10	60,000	94,447	154,447

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2019		60,000	94,447	154,447
Comprehensive income				
Profit for the year		-	11,860	11,860
Share movements				
Shares allotted during the year		530,378	-	530,378
Balance at 31 March 2020	10	590,378	106,307	696,685

The accompanying notes on pages 12 to 23 form part of these financial statements

LPFI LIMITED

Statement of Cash Flows

For the year ended 31 March 2020

	2020 £	2019 £
Cash flow from operating activities:		
Profit for the year	11,860	59,396
Adjustments for:		
Finance costs	2	-
Corporation tax charge	2,782	13,933
Changes in assets and liabilities:		
Increase in receivables and other financial assets	(161,654)	(101,628)
Increase in payables	178,580	79,640
Cash flows from operations	31,570	51,341
Interest paid	-	-
Corporation tax paid	(15,445)	(7,926)
Net Cash flows from operating activities	16,125	43,415
Cash flow from financing activities:		
Loans repaid to group entities	-	-
Share capital issued	530,378	-
Net cash flows from financing activities	530,378	-
Net increase in cash and cash equivalents	546,503	43,415
Cash and cash equivalents at beginning of year	126,624	83,209
Cash and cash equivalents at end of year	673,127	126,624
Cash at bank and in hand	673,127	126,624

The accompanying notes on pages 12 to 23 form part of these financial statements

1. Statement of significant accounting policies

LPFI Limited ('the company') is a limited company incorporated in Scotland. The address of its registered office and principal place of business are disclosed on page 1. The principal activities of the company are described within the directors' report on pages 2 to 4.

The financial statements of LPFI Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRIC Interpretation and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in uniformity with IFRS require the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

Adoption of new and revised standards

The following new and amended IFRSs became applicable to annual reporting periods beginning on or after 1 January 2019, but are either not applicable or have no material impact on the financial statements;

- IFRS 16 Leases
- IAS 12 Income Taxes
- IFRIC 23 Uncertainty over Income Tax Treatments

Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 December 2019, and with potential effect.

International Accounting Standards and Interpretations	Effective for periods beginning on or after
IFRS 3, Amendments to IFRS 3 – definition of a business	1 January 2020
IAS 1 and IAS 8, Amendments to IAS 1 and IAS 8 on the definition of material	1 January 2020
Conceptual Framework, Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17, Insurance Contracts	1 January 2021

The Directors have reviewed the requirements of the new standards and interpretations listed above and they are either not applicable or not expected to have a material impact on the Group financial statements in the period of initial application.

1. Statement of significant accounting policies (continued)

Basis of preparation

The financial statements are presented in Sterling (£) as that is the company's functional currency and the currency in which the majority of the company's transactions are denominated. The financial statements have been prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

a. Going concern

The directors are of the opinion that the company has adequate resources to enable it to undertake its planned activities for a period of at least one year from the date that the financial statements are approved.

b. Current and deferred income tax

The charge for income tax expense for the year is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet 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 income 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.

1. Statement of significant accounting policies (continued)

b. Current and deferred tax (continued)

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 income tax assets are recognised to the extent that it is 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.

c. Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of the asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

d. Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and is net of bank overdrafts.

e. 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. Statement of significant accounting policies (continued)

f. Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. For receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

g. Share capital

Ordinary shares are classified as equity.

h. Financial instruments

Financial assets and financial liabilities are recognised when the company has become party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the statement of profit or loss and other comprehensive income.

Trade payables
Trade payables are initially recognised at cost and subsequently at amortised cost using the effective interest method.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an amortised cost basis to the profit or loss and other statement of comprehensive income using the effective interest method, being recognised in the statement of comprehensive income over the term of such instruments at a constant rate on the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

1. Statement of significant accounting policies (continued)

h. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

i. Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company. The directors are satisfied that the accounting policies are appropriate and that there are no significant estimates or judgements used in the preparation of the financial statements.

2. Profit from operations

	2020 £	2019 £
Profit from operations has been determined after deducting:		
Auditor's remuneration:		
Audit services	4,120	4,000
Non-Audit services	5,588	5,555

3. Finance costs

	2020 £	2019 £
Loan interest payable to group entities (note 12)	2	-
	2	-

4. Corporation tax charge

	2020 £	2019 £
Current tax:		
Corporation tax charge	695	13,933
Inter- company tax	2,087	-
Tax on profits for the year	2,782	13,933

Corporation tax expense is calculated at 19% (2019: 19%) of the assessable profits for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2020 £	2019 £
Profit for the year before taxation	14,642	73,329
Profit for the year at the effective rate of corporation tax of 19% (2019 – 19%)	2,782	13,933

5. Directors' remuneration

The aggregate payroll costs for the year consisted of fees paid to a non-executive director. These were as follows:

	2020 £	2019 £
Wages and salaries	12,000	12,000
Social security costs	941	958
	12,941	12,958

No pension benefits were accrued by the director 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. LPFE Limited is a company under the control of Lothian Pension Fund (administered by the City of Edinburgh Council), and the City of Edinburgh Council. In addition to the payroll costs noted above, the company was also charged £95,967 (2019: £1,010) for services provided by directors employed by LPFE Limited during the year.

6. Trade and other receivables

	2020 £	2019 £
Trade debtors	320,417	160,139
Prepayments	500	-
VAT recoverable	1,330	454
Corporation tax	817	-
	323,064	160,593

The directors consider the fair value of receivables to be in line with carrying values.

7. Cash and cash equivalents

	2020 £	2019 £
Cash at bank and in hand	673,127	126,624

8. Trade and other payables

	2020 £	2019 £
Trade creditors	7,980	317
Accruals	11,067	7,250
Corporation tax	-	13,933
Amounts due to group entities	280,459	111,270
	299,506	132,770

9. Share Capital

	2020 £	2019 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	590,378	60,000
	590,378	60,000

10. Reserves

	Retained Earnings £
At 31 March 2018	35,051
Profit for the year	59,396
At 31 March 2019	94,447
Profit for the year	11,860
At 31 March 2020	106,307

11. Controlling interest

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:

Account Dept.
Lothian Pension Fund
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

12. Related parties

	2020 £	2019 £
Lothian Pension Fund (pension fund administered by City of Edinburgh Council)		
Business support costs	129,198	442
Payables at the period end	10,265	442
Loan facility repaid during the year	-	-
Interest payable during the period	2	-
Interest payable at period end	2	-
LPFE Limited (company under common control)		
Staff and other cost recharges	-	10,988
Recharges to collaborative partner on behalf of LPFE	662,521	108,290
Group tax losses utilised	2,087	
Payables at the period end	268,105	110,828

The company has a loan facility agreement with Lothian Pension Fund for the purpose of the provision of short-term working capital. The agreement was amended and restated on 11 February 2020. 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 company returns any cash not immediately required and this can result in short periods when the company has returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Compensation paid in relation to key management personnel during the period was as follows:

	2020 £	2019 £
Directors' remuneration (note 5)	12,941	12,958
	12,941	12,958

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 £95,967 (2019: £1,010) for services provided by key management personnel employed by LPFE Limited during the year.

13. Financial Risk Management

The company's financial instruments consist mainly of deposits with banks and accounts receivable and payable. Financial instruments do not include prepayments, VAT, taxation, social security and deferred income.

The company did not enter into any transactions that would be classed as derivative financial instruments during the period.

The totals for each category of financial instruments, measured in accordance with IAS 39 and detailed in the accounting policies, are as follows:

	2020	2019
	£	£
Financial assets		
Cash and cash equivalents	673,127	126,624
Trade and other receivables	320,417	160,139
Total financial assets	993,544	286,763
Financial liabilities		
Trade and other payables	299,504	118,837
Total financial liabilities	299,504	118,837

Financial risk management policies

The company aims to manage its overall capital structure to ensure it continues to operate as a going concern. The company's capital structure represents the equity attributable to the shareholders of the company together with cash equivalents.

The Board is charged with the overall responsibility of establishing and monitoring the company's risk management policies and processes in order to identify, analyse and monitor the risks that are faced by the company. The company does not enter into or trade financial instruments for speculative purposes.

The main risks that the company is exposed to through its financial instruments are credit risk, liquidity risk and market risk. These are managed as follows:

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contractual obligations that could lead to a financial loss to the company.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. As at 31 March 2020 none of the company's financial assets were past due or impaired.

Credit risk is managed and reviewed regularly by senior management. It mainly arises from amounts owed by customers. Given the financial stature of its customers the credit risk faced by the company is considered to be very small.

13. Financial Risk Management (continued)

b. Liquidity Risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its financial obligations as they fall due. The company manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- ensuring that adequate unutilised borrowing facilities are maintained.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Financial liability and financial asset maturity analysis

	Within 1 Year 2020 £	1 to 5 Years 2020 £	Total 2020 £
Financial liabilities due for payment			
Trade and other payables	(299,504)		(299,504)
Total expected outflows			
Financial assets — cash flows realisable			
Cash and cash equivalents	673,127		673,127
Trade and other receivables	320,417		320,417
Total anticipated inflows	993,544		993,544
Net inflow of financial instruments	694,040		694,040

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows as presented in the table (to settle financial liabilities) reflects the earliest contractual settlement dates.

The company has been granted a £250,000 unsecured revolving loan facility by its parent, The City of Edinburgh Council. The ceiling of the facility has been set at a level to ensure sufficient cash is available to meet the company's short-term cash flow needs, should there be a delay in customers settling invoices for services provided.

13. Financial Risk Management (continued)

c. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's financial position. The company has no direct exposure to movements in foreign exchange or equity prices, and has very little exposure to interest rate movements, due to the low level of borrowing. The company monitors this risk but the directors are of the opinion that it is very unlikely to have a significant effect on the company's financial position.

14. Movements in financing (assets)/liabilities arising from financing activities

	Share capital	Current loans & borrowings	Total
At 1 April 2018	60,000	-	60,000
Cash flows			
Financing loans from group companies withdrawn	-	-	-
Issue of share capital	-	-	-
At 31 March 2019	60,000	-	60,000

	Share capital	Current loans & borrowings	Total
At 1 April 2019	60,000	-	60,000
Cash flows			
Financing loans from group companies withdrawn	-	-	-
Issue of share capital	530,378	-	530,378
At 31 March 2020	590,378	-	590,378

LOTHIAN PENSION FUND

Azets Audit Services
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Dear Sirs

Lothian Pension Fund and Scottish Homes Pension Fund

This representation letter is provided in connection with your audit of the Lothian Pension Fund and Scottish Homes Pension Fund Annual Report and Accounts for the year ended 31 March 2020 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 2020 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 in the United Kingdom 2018/19 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 for the year ended 31 March 2020 the following:

1. We have fulfilled our responsibilities for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and for making accurate representations to you.
2. We have provided you with:
   - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - additional information that you have requested from us for the purpose of the audit; and
   - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
3. All transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We acknowledge our responsibilities for the design and implementation of internal control in order to prevent and detect fraud and to prevent and detect error.

5. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:

   - management;
   - employees who have significant roles in internal control; and
   - others where the fraud could have a material effect on the financial statements.

6. We are not aware of any allegations of fraud or suspected fraud with a potential effect on the financial statements which have been communicated to us by employees, former employees, regulators or other third parties.

7. 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.

8. We confirm that, in our opinion, 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.

9. In our opinion the significant assumptions used by us in making accounting estimates are reasonable.

10. 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.

11. We have disclosed to you the identity of the company's related parties and all related party relationships and transactions of which we are aware.

12. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

13. In particular, no trustee, shadow trustee, their connected persons or other officers had any indebtedness, agreement concerning indebtedness or disclosable interest in a transaction with the Funds at any time during the year.

14. The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:

   - losses arising from sale and purchase commitments;
   - agreements and options to buy back assets previously sold;
   - assets pledged as collateral.

15. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

16. We have no plans to abandon activities or other plans or intentions that will result in any excess or obsolete stocks, and no stock is stated at an amount in excess of net realisable value.

17. The Funds have satisfactory title to all assets and there are no liens or encumbrances on the Funds' assets, other than as disclosed in the financial statements.

18. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and all guarantees that we have given to third parties.

19. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards as adopted by the European Union require adjustment or disclosure have been adjusted or disclosed. Should any material events occur which may necessitate revision of the figures included in the financial statements or inclusion in the notes thereto, we will advise you accordingly.

20. The Funds have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

21. To the best of our knowledge and belief, the information disclosed in the financial statements in respect of parties which control the Funds is complete and accurate.

22. Except as disclosed in the financial statements, the results for the year were not materially affected by:

    - any change in accounting policies;
    - transactions of a type not usually undertaken by the Funds' group;
    - circumstances of an exceptional or non-recurrent nature; or
    - charges or credits relating to prior periods.

23. There is no pending or potential litigation against the Funds and there are no contingencies of a material amount for which provision has not been made in the financial statements.

24. We confirm that we have reviewed going concern considerations and are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this opinion we have taken into account all relevant matters of which we are aware and have considered a future period of at least one year from the date on which the financial statements were approved.

Yours faithfully

John Burns
Chief Finance Officer (Section 95 Officer for the Pension Funds)