

Scottish Local Government Pension Scheme Advisory Board

Annual Report 2022-23

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Opening Remarks from the Chair

On behalf of the Local Government Pension Scheme Advisory Board, I am delighted to be able to present the eighth SAB Annual Report. The aim of this Annual Report is to provide a primary source of information about the work of the Board over the last financial year for LPGS members, employers, and other stakeholders. This report summarises the financial position of funds across Scotland, and each local Pensions Fund has made decisions to invest their funds bearing in mind their own fiduciary duty. Although the positions of individual funds vary, overall, across Scotland, the LGPS continues to be fully funded and sustainable, which is very welcome. I hope you find this report useful. The Board welcomes feedback on the information provided and how this can be developed for future reports. More information can be found about the Board's work at our website: <https://lgpsab.scot/>

Brian Robertson, Chair of SAB (outgoing)

Introduction

1. The Scottish Local Government Pension Scheme Advisory Board (SAB) was established under the Public Services Pension Act 2013 to provide advice to Scottish Government Ministers on the desirability of changes to the design of the scheme and the implication of other policy issues.

2. The SAB also provides advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the scheme.

3. The Scheme Advisory Board is responsible for:

- Providing advice on request about the desirability of changes to the design of the scheme; policy issues and changes to scheme regulations.
- Discussing and commenting on the potential implications of future valuation outcomes.
- Making recommendations on adjustments to the Scheme, in the event that costs breach the employer cost cap.
- Providing advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the Scheme.

Structure and People

4. The SAB is a bipartite Board comprising equal representation from employers and trade union representatives. It meets at least four times a year and considers Scotland-wide issues relating to the governance of the scheme.

5. In the past, these have included Fiduciary Duty, "pensions choice", scheme governance, reviews of pension regulations, Guaranteed Minimum Pensions, and the Audit Scotland review of funds.

6. Current issues include investment cost transparency, scheme valuation, fund structures, climate risk to investments, and board member training.

7. The partnership approach is also reflected in our administration arrangements with Joint Chairing on a rotational basis between the two sets of representatives and a Joint Secretariat sourced from existing resources within the Employers and Trade Union organisations.

SAB Members (during 2022-23)

Chair – Cllr David Parker, Scottish Borders Council (COSLA)

Vice-Chair – Brian Robertson, Unite the Union

Members representing Scheme Member interests:

Simon Watson, UNISON

Stephen Smellie, UNISON

Dr Davena Rankin, UNISON
 Brian Robertson, Unite the Union
 Wendy Dunsmore, Unite the Union
 Andy Thompson, GMB
 Annette Drylie, GMB

Members representing COSLA, Scheduled and Admitted Bodies:

Cllr Mandy Watt, City of Edinburgh Council (COSLA)
 Cllr David Richardson, East Ayrshire Council (COSLA)
 Cllr David Parker, Scottish Borders Council (COSLA)
 Cllr Simon Mountford, Scottish Borders Council (COSLA)
 Cllr Vaughan Moody, East Dunbartonshire Council (COSLA)
 Brian Strathie, Scottish Water (Scheduled and Admitted Bodies)
 Kenny Dick, Care Inspectorate (Scheduled and Admitted Bodies)

Joint Secretary – Employers Jonathan Sharma, COSLA Joint Secretary – Trade Unions Simon Watson, UNISON

8. There are a number of observers and advisers who support the SAB in the deployment of Board business. These include representatives from, and on behalf of, the Scottish Government, formal COSLA officials, pension scheme managers and representatives from professional associations.

Communications

9. The SAB has developed a bespoke website to act as a unique source of information and advice to all stakeholders. The site includes the SAB meeting papers and minutes along with other governance documentation, guidance documents and details of the Board's membership. The content of the website will develop as the work of the Board continues.

10. Similar information is also published on the local government pages of the Scottish Public Pensions Agency (SPPA) website - www.sppa.gov.uk.

11. A short bulletin is also published after each meeting covering the key decisions. This bulletin is circulated to key stakeholders and is available on the SAB website – <https://lqpsab.scot>.

SPPA links and useful resources for local government employers to each Fund: [Local Government | SPPA \(pensions.gov.scot\)](#)

Links to local government employer websites: <https://www.cosla.gov.uk/>

Links to Funds: <https://lqpsab.scot/related-websites/>

Financial Report

12. The regulations underpinning the 2013 Act allow the SAB to collect a levy to support its work. In the first year of operation, the SAB adopted a straight proportion of the levy raised by our equivalent SAB in England and Wales equating to £40,000. The SAB secretariat and support function is used from existing resources within both employer and trade union organisations to minimise the financial impact of our work on the public purse. During the business year 2022-23, the SAB continued to retain the bulk of the funds in anticipation of a potential structure review procurement and to meet anticipated costs of the UK online fee transparency portal, to be met by the Scottish SAB. Further detail is contained in the Review of the Year below. A regular financial report is considered by the SAB at each meeting and any monies not used are held over for the following financial year.

Review of the Year 2022-23

13. Scheme Valuation and Cost Control

The SAB considered initial findings from the draft Section 13 Valuation Report for 2020, with a report due by GAD at the end of December 2022. This noted requirements for Scottish Funds to consider compliance, consistency, solvency, and long term cost efficiency.

The SAB noted the position of Scottish Funds as broadly positive, with a linear relationship with lesser funded funds paying more in contributions compared to better resourced funds. Also noted were

recommendations outlined for Funds to disclose information on a more standardised basis for comparative reasons.

SAB members questioned the impact of rising fund size vis-à-vis declining local authority budgets and the potential implications of a National Care Service, with concerns noted around potential volatility in the future posed by decreased local authority budgets.

The SAB also considered the 2020 valuation of the LGPS undertaken by GAD, covering valuation and cost control, process and timeline, and the role of the SAB and wider stakeholders. This noted a judicial review on transitional protection remedy costs with the outcome not expected until later into 2023. In parallel, the SAB considered cost-cap reforms by HM Treasury – including only including new scheme costs, a widening of the corridor to +/-3% and the introduction of an economic check and that this would continue to be an area for consideration over the coming months.

14. Structure Review Project

As reported in the 2021-22 SAB Annual Report, a structure review project had been initiated by the SAB, which drew together practitioners and international industry experts to review evidence around best practice for pension funds. This project developed a comprehensive map of the existing evidence base, and a gap analysis of where future research would be of assistance.

In order to consider next steps on the project and prior to considering any form of commissioning review work at scale, the SAB agreed to hold a series of workshops to explore the implications of change and that the structure review be paused until such time that it was felt the SAB was in a fully informed position. Arising from the workshops, the SAB agreed to hold a series of further workshops/ training events during the course of 2023. A further update on these events will be provided in the 2023-24 Annual Report.

The SAB wrote to the then Minister for Public Finance, Planning and Community Wealth, to update the Minister on where the structural review stood and the work that had been completed to date. The SAB also wanted to understand the Minister's position on the implications of the National Care Service for the future of LGPS and implications for structures, with the opportunity for the SAB to play its role as adviser to the Minister on pension matters. The Minister subsequently replied in May 2023 to concur that any further work on scheme structure is put on hold until the outcome of a review the England and Wales pooling agenda and other proposed governance arrangements were clearer.

15. Other matters considered during the year

The SAB considered a range of other matters during the course of 2022-23. These included cost transparency reporting tool, good governance, climate reporting and pension regulation changes (including McCloud judgement). The SAB established working groups during the year to look at appropriateness of a cost cap pre-breach mechanism for the Scottish SAB, similar to that established by the English & Welsh SAB, as well as Good Governance compliance, following on from a report to the English & Welsh SAB on implementing good governance proposals.

Financial Overview

16. Audit Scotland published an annual Financial Overview of Local Government in Scotland 2022-23 on the SLGPS within its main report. This describes the scheme and governance arrangements together with an analysis of the financial position. Its conclusions were as follows:

17. Ten out of the eleven Scottish Local Government pension funds experienced “largely positive” net returns. Though noted that these were 62% lower in cash terms than the previous year. The report also advised that the net returns on investments varied between a reduction of 2.7% and an increase of 11% in individual funds.

18. The report also notes the conclusions of the triennial valuation, an actuarial valuation conducted every three years to monitor the assets of funds against the liabilities of the pension benefits payable,

with four of Scotland's Local Government pension funds recording liabilities as being greater than assets – an improvement on the 2017 position.

19. The tables below give a snapshot of the Local Government Pensions Scheme as at 31 March 2023, showing numbers for the scheme in total and individual funds in terms of Contributor, Pensioners and Deferred Members:

All tables have been updated

Table 1: Membership Status of Scottish Local Government Pension Scheme – 31 March 2023

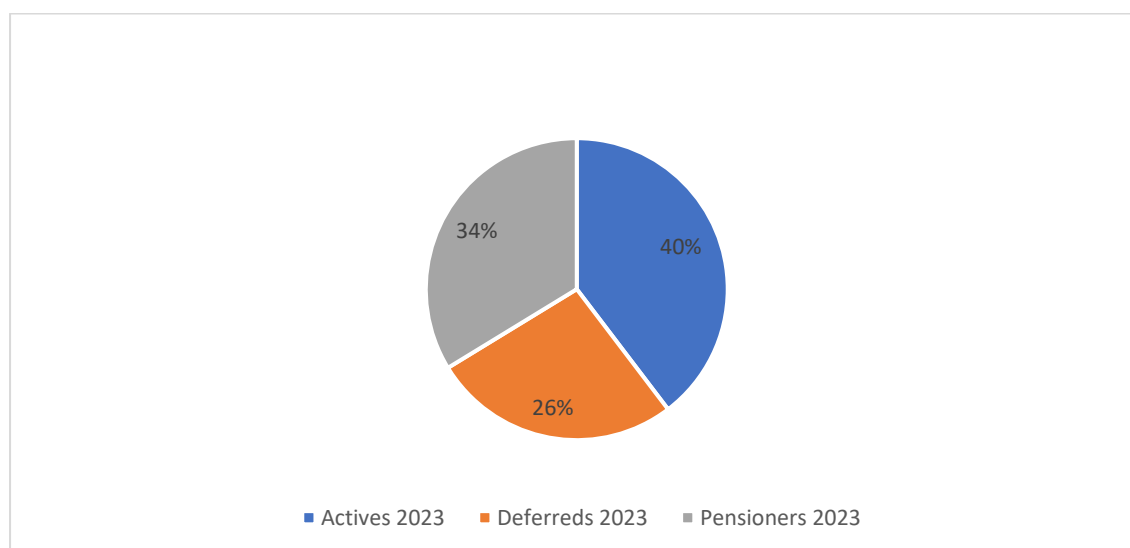


Table 2: Membership per individual Scottish Local Government Pension Fund – 31 March 2022

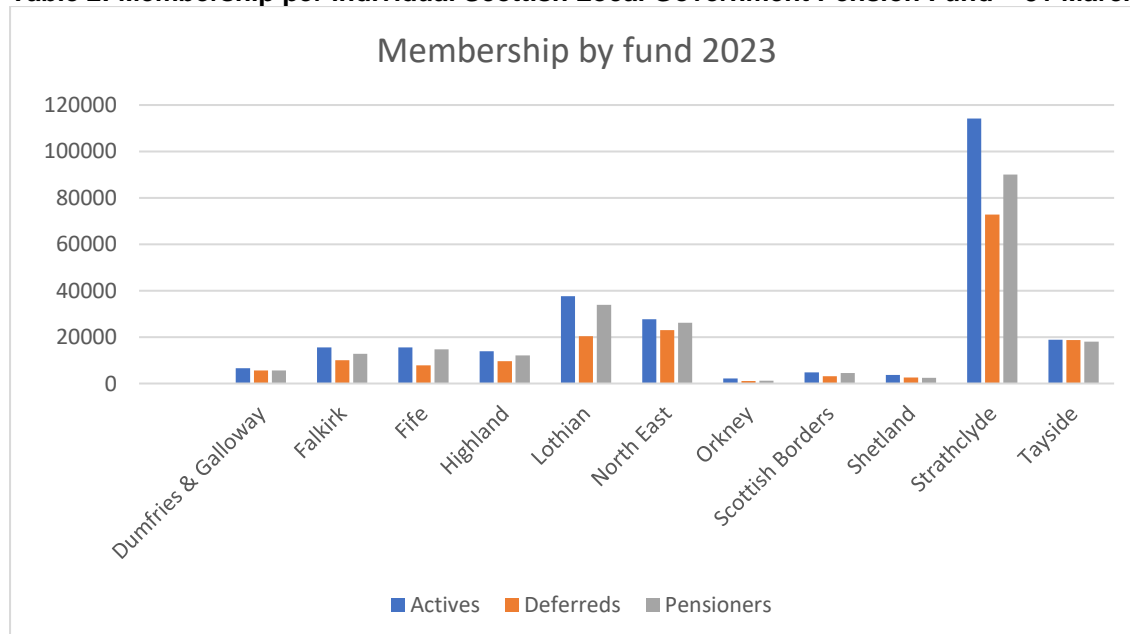


Table 3: Membership per individual Scottish Local Government Pension Fund – 31 March 2023

	Contributors	Pensioners	Deferred Members	Total
Dumfries and Galloway	6,555	5,644	5,658	17,857
Falkirk	15,621	12,851	10,091	38,563

Fife	15,524	14,677	7,790	37,991
Highland	13,831	12,071	9,649	35,551
Lothian	37,614	33,955	20,427	91,996
North East	27,751	26,146	22,981	76,878
Orkney	2,167	1,227	1,081	4,475
Scottish Borders	4,842	4,532	3,187	12,561
Shetland	3,625	2,429	2,608	8,662
Strathclyde	114,178	90,102	72,811	277,091
Tayside	18,912	18,008	18,912	55,582
Total	260,620	221,642	174,945	657,207

Cost Transparency

20. The Board has reviewed the implementation of the online cost transparency system which it previously supported, as a way for Funds to compare investment fees and costs. The aspiration is that this is a step towards helping Funds more fully understand costs and minimise unnecessary ones.

21. This includes encouraging Funds to require investment managers to report information based on templates developed by the Institutional Disclosure Working Group, and now taken forward by the Cost Transparency Initiative (CTI). These represent a step forward in having a common and comparable system of reporting investment costs.

22. The system has been operating for two years and provides comparable data from LGPS Funds across Britain on the fees and returns of different classes of investments, giving both averages and spreads of returns. It also includes basic data validation and is the platform for further developing this analysis which will benefit Funds, and thence employers and members.

23. Pensions Funds have continued to promote the Transparency Code and have engaged with their asset managers to ensure the Code is adopted. The large majority of fund managers have adopted the Code and submitted reporting templates. In certain asset classes where this is lower, a slightly revised reporting template is being developed which is appropriate to those investments.

24. Enhancements have been made to the system, around using multiple currencies and flexibility around the financial year were implemented.

25. For recent years for Scotland, the status shown on the SAB Cost Transparency Compliance and Validation System was as follows:

Year	Completed	Due	Late	Total returns
2020/21	213	0	5	218
2021/22	261	0	13	274
2022/23	280	0	7	287

26. Therefore, 98% of templates expected to be uploaded for this period were complete for the reported year.

27. Funds are continuing to notice a modest improvement in the granularity of costs being disclosed, with cost templates covering up to 31 March 2023 being provided. However, there remains more work to be done working with private markets, in particular in providing cost transparency. Funds are

adopting the CTI templates and reported on this basis for most asset classes in the 2022-23 financial period.

Cessation Issues

28. Smaller employers, typically outwith the public sector, are members of various LGPS funds in Scotland. They typically have weaker covenants than local authorities, and therefore are at higher risk and have to pay higher contributions. In addition, when they no longer have any active members, the employers are required to address any funding deficits. These arrangements vary by fund.

29. At the request of Scottish Ministers, the SAB convened a working group to explore guidance to address the differences in the treatment of different employers in different funds and ensure a fair, consistent and transparent approach to cessation issues.

30. The SAB subsequently advised SPPA as informed in the Review of the Year above.

Financial Statement

Fund Account

21-22 (£m)		22-23 (£m)
	Dealings with Members, Employers and Others Directly Involved in the Fund	
1,625.05	Contributions and other income	1,717.05
(1,598.61)	Benefits and other payments	(1,769.82)
26.45	Net additions from dealings with members before management expenses	(44.44)
	Fund Running Costs	
(303.92)	Investment & fund management costs and expenses (see breakdown below)	(297.18)
(230.02)	Net additions including management expenses	(283.18)
	Investment Returns	
972.84	Investment income	1,112.64
(9.18)	Taxes on income	(8.55)
3,516.92	Profits and losses on disposal of investments and change in value of investments	(2,137.06)
4,434.56	Net return on investments	(1,082.49)
4,434.56	Net increase / (decrease) in the net assets available for benefits during the year	(1,138.40)
57,187.38	Opening net assets of the scheme	61,380.00
61,380.00	Closing net assets of the scheme	60,241.60

Investment & Fund Management Costs and Expenses Breakdown

21-22 (£m)		22-23 (£m)
	Administration and Governance	
(16.67)	Administration	(16.40)
(293.36)	Oversight and governance	(6.90)
(0.10)	Other	(0.48)
(316.86)	Total administration and governance	(309.46)
	Investment Management Costs	
(244.95)	Management fees	(249.80)
(23.29)	Performance fees	(7.08)
(19.28)	Transaction costs	(16.98)
(0.79)	Custody costs	(1.22)
(2.10)	Other costs	(10.62)
(290.41)	Total investment management costs	(285.70)

Net Assets Statement

21-22 (£m)	Investment Assets	22-23 (£m)
32,506.73	Equities	30,571.11
8,276.16	Bonds	8,685.07
2,582.17	Property	2,186.24
9,288.10	Infrastructure	10,114.06
2,452.08	Private equity	3,034.10
1,564.46	Multi-asset credit	1,494.11
338.04	Private debt	423.21
279.71	Diversified growth funds (DGF)	137.94
	Liability driven investments (LDI)	
130.62	Hedge funds	138.86
4.09	Derivatives	38.73
2,703.78	Cash	1,751.39
1,203.13	Other (incl. net current assets)	1,454.59
61,380.00	Total net assets	60,242.12

Minor discrepancies due to rounding.

Investments

Investment Assets	2022 (£m)	2023 (£m)	2022	2023	change
Bonds	8276.159	8695.07	13.5%	14.4%	0.7%
Equities	32506.729	30571.107	53.0%	50.7%	-3.2%
Property	2582.165	2186.241	4.2%	3.6%	-0.6%
Private equity	2452.076	3034.098	4.0%	5.0%	0.9%
Infrastructure	9288.102	10114.062	15.1%	16.8%	1.3%
Mult asset credit	1564.458	1494.111	2.5%	2.5%	-0.1%
Private debt	338.042	423.207	0.6%	0.7%	0.1%
Diversified growth funds	279.708	137.943	0.5%	0.2%	-0.2%
Liability driven investments	0	0	0.0%	0.0%	0.0%

Hedge funds	130.62	138.862	0.2%	0.2%	0.0%
Derivatives	4.085	38.727	0.0%	0.1%	0.1%
Cash	2703.776	1751.39	4.4%	2.9%	-1.6%

